



The Construction CEO: Leader of Change in Uncertain Times

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Agenda

- I. Are we in a recession?
- II. Do we operate or should we operate differently in a recession?
- III. Breakout session
- IV. Pre-qualification of customers and projects
- V. Contract terms to focus on during a down economy
- VI. Key metrics
- VII. Decisions/issues to focus on



Are We in a Recession?

- 1990 vs 2002 vs 2008
 - Parallels
 - U.S. and Massachusetts Economies
 - Construction Economy – Massachusetts
 - Socially



The US Economy: A Perfect Storm?

- The national economy is probably already in recession.
- The dollar is at a record low which has been good for exporters but is contributing to rising construction material costs.
- The “credit crunch” is making difficult for consumers, businesses and state and local governments to obtain loans and “investment capital”.



Economy

	1/1/90	12/31/02	12/31/07
Rate of Inflation	5.4%	1.2%	4.08%
Prime Interest Rate	10.11%	4.75%	5.25%
Stock Market- DJIA	2,633.66	10,453.92	13,264.82
S&P 500	367.07	855.70	1,468.36
NASDAQ	373.80	1,335.51	2,652.28
Businesses filing for Bankruptcy	64,853	40,099	42,755
Individual Bankruptcy Filings	782,960	1,490,000	827,000
Bust Event 3 Years Prior/Bubble Burst	Tax Reform Act of 1986/Elimination of Tax Shelter	April 2000 Technology Crash	Sub Prime Crisis

Massachusetts Economy

- Fueled by worldwide demand for their products and services, the state's technology, science, and knowledge-based industries remain strong.
- But this will be small consolation for many of our households, small businesses and municipalities who are feeling the impact of declining property values and rising prices.



Economy

	1/1/90	12/31/02	12/31/07
Office Vacancy Rate – Boston	17+%	16%	7.4%
Hotel Occupancy Rate – Boston	65%	79% (1998)	75.1%
Unemployment	9.5%	6.1%	5.1%



Economy

	1/1/90	12/31/02	12/31/07
New Housing Starts – Northeast	131,100	149,200	94,000
Median Rent – Apt. in Boston	\$546 per/month	\$1400 per/month	1,788
Average Home Sales Price – MA	\$161, 400	\$373,584 (2003)	\$345,500
MA Unemployment Rate	6.0%	4.5%	4.6%
Construction Jobs	89,700	139,300	125,600
Cost of Oil per barrel	\$23.19	\$22.81	\$64.20



Massachusetts Employment

MASSACHUSETTS PAYROLL EMPLOYMENT



Source: Massachusetts Division of Unemployment Assistance, CES-790 series, sa

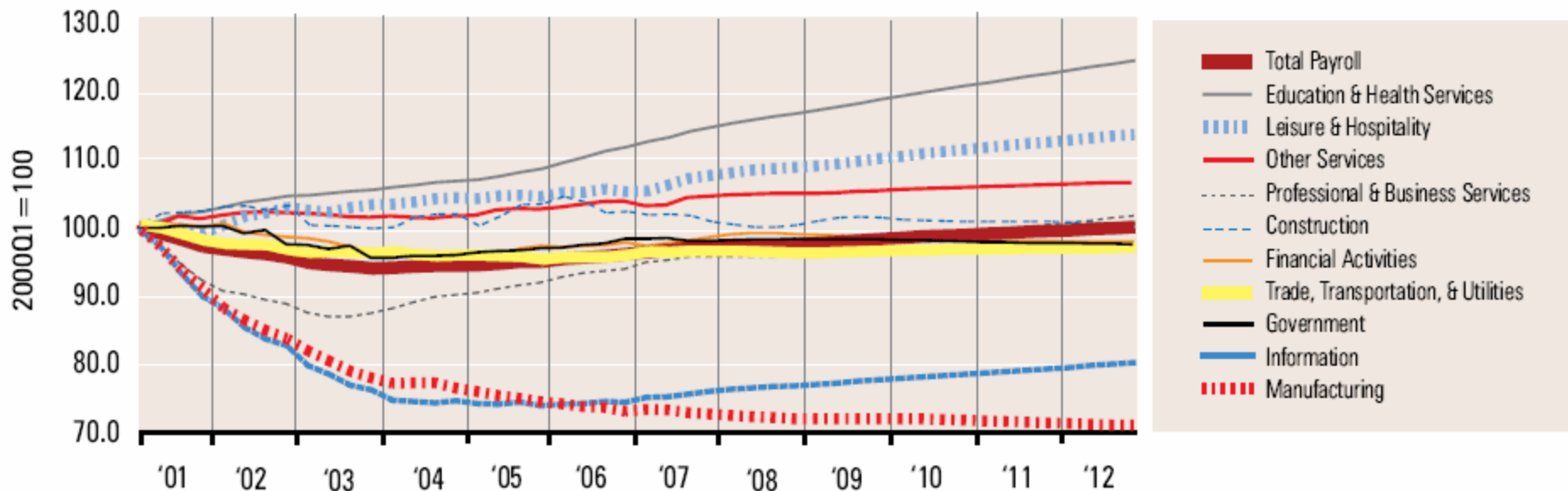


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Mass. Employment by Industry

Payroll Employment, Massachusetts

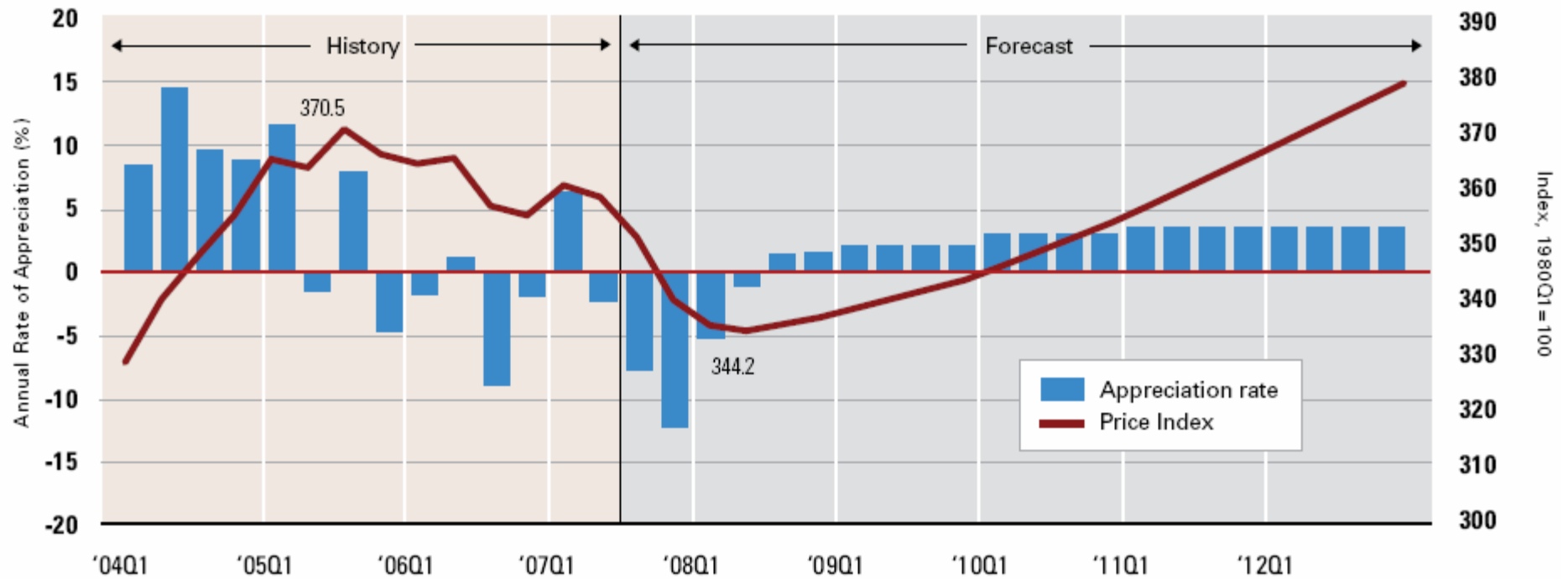


Source: NEEP



Massachusetts Housing Market

Massachusetts Median Existing House Prices, History and Forecast



Sources: National Association of Realtors and the New England Economic Partnership



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Areas 10 Largest Construction Projects

1990 (total = \$3.5B)	2003 (total = \$3.0B)	2008 (total = \$2.3B)
1. Boston Crossing \$750M	1. Big Dig \$14B	1. Natick Collection \$387M
2. Commonwealth Center \$450M	2. Logan \$886M (3 Projects)	2. I-93 Central Artery Tunnel \$275M
3. 125 High Street \$420M	3. Boston Convention Center \$485M	3. Hebrew SeniorLife Newbridge \$230M
4. World Trade Center Expansion - \$500M	4. Mass. Highway Route 3 North \$385M	4. Mandarin Oriental Boston Hotel \$227M
5. Prudential Center Redevelopment \$375	5. Millennium Place \$358M	5. Harvard University \$224M
6. 1 Lincoln Center \$300	6. Harvard Medical School \$250M	6. Dana-Farber Cancer Institute \$210M
7. Sears Building \$300	7. MIT Stata Center \$201M	7. Harvard Law School \$204M
8. Ruggles Center \$200	8. One Lincoln Street \$170M	8. Longwood Medical Center \$200M
9. Woolworth Building \$200M	9. Waltham Public Schools \$160M	9. Battery Wharf \$182M
10. Two International Place \$183M	10. MWRA Tunnel \$148M	10. 303 Third Street \$163M



Source: Boston Business Journal Book of Lists for 1990, 2003 and 2008

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Largest Construction Companies

Massachusetts/Boston Metro Volume

1990

(total = \$1.5B, avg \$98.5M)

1. Turner - \$200M
2. Morse Diesel - \$187M
3. Peabody Construction - \$178M
4. Gilbane Building - \$119
5. Suffolk Construction - \$110M
6. Beaver Builders - \$105M
7. Vappi & Co. - \$97M
8. George Hyman Const. - \$76M
9. Beacon Construction - \$76M
10. J.F. White - \$75M
11. Perini - \$71M
12. Modern Continental - \$52M
13. J.M. Cashman - \$45M
14. Dimeo Construction - \$45M
15. Structure Tone - \$42M

2003

(total = \$4.0B, avg \$271M)

1. Modern Continental - \$748M
2. Suffolk Construction - \$559M
3. Beacon/Skanska - \$390M
4. Tishman - \$257M
5. Macomber - \$256M
6. Peabody Construction - \$243M
7. Payton Construction - \$242M
8. Shawmut Design - \$229M
9. Gilbane Building - \$218M
10. Bovis - \$207M
11. William A. Berry - \$204M
12. Bond Bros. - \$145M
13. Lee Kennedy - \$130M
14. JT Callahan - \$128M
15. Perini - \$107M

2008

(total = \$3.9B, avg \$262M)

1. Suffolk Construction - \$639M
2. Gilbane Building - \$361M
3. Payton Construction \$348M
4. Bovis - \$342M
5. Skanska USA - \$300M
6. William A. Berry - \$265M
7. Shawmut Design - \$223M
8. Tishman Construction - \$212M
9. Walsh Bros. - \$210M
10. Bond Bros. - \$202M
11. Consigli Construction - \$181M
12. Structure Tone - \$173M
13. TLT Construction - \$172M
14. Dimeo Construction - \$167M
15. Cranshaw Construction - \$129M

Red – No Longer in Business

Blue – 2 years

Green – 3 years

Source: Boston Business Journal Book of Lists for 1990, 2003 and 2008

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Largest Architects

1990

1. Sasaki Associates
2. The Architects Collaborative
3. Jung/Brannen
4. Payette Associates
5. Shepley Bulfinch
6. TRO
7. Stubbins Associates
8. Arrowstreet
9. CBT/Childs
10. Benjamin Thompson

2003

1. Elkus/Manfredi
2. CBT/Childs
3. Sasaki Associates
4. ADD, Inc.
5. Jung/Brannen
6. Flansburgh Associates
7. TRO
8. Drummey Rosane
9. Mount Vernon Group
10. Architectural Resources

2008

1. TRO
2. CBT/Childs
3. Elkus/Manfredi
4. Cannon Design
5. ADD, Inc.
6. Steffian Bradley
7. Arrowstreet
8. Tsoi.Kobus
9. KingStubbins
10. Cubellis

Blue – 2 years

Green – 3 years

Source: Boston Business Journal Book of Lists for 1990, 2003 and 2008

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Largest Commercial Banks

1990	2003	2008
1. Bank of Boston*	1. Fleet*	1. Bank of America
2. Bank of New England+	2. Citizens Bank	2. Citizens Bank
3. State Street Bank	3. First Massachusetts Bank^	3. Sovereign Bank
4. Boston Safe Deposit & Trust	4. Boston Safe Deposit & Trust	4. Investors Bank & Trust
5. Shawmut Bank*	5. Investors Bank & Trust	5. TD Banknorth

+Out of Business

*Merged into Bank of America

^Merged into Banknorth

Source: Boston Business Journal Book of Lists for 1990, 2003 and 2008

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Mass. Largest Public Companies

1990

1. Digital Equipment - Mfg
2. Raytheon - Mfg
3. Gillette - Mfg
4. Reebok - Mfg
5. Polaroid - Mfg
6. New England Electric - Utility
7. General Cinema - Retail
8. State Street - Finance
9. Hanover Insurance - Insurance
10. Norton Company - Mfg

2003

1. Raytheon - Mfg
2. Staples - Retail
3. TJX Co.'s - Retail
4. John Hancock Financial - Insurance
5. Gillette - Mfg
6. EMC Corp. - High Tech
7. Northeast Utilities - Utility
8. BJ's Wholesale - Retail
9. Allmerica - Insurance
10. NSTAR - Utility

2008

1. Raytheon - Mfg
2. Staples - Retail
3. TJX Co.'s - Retail
4. EMC Corp. - High Tech
5. State Street - Finance
6. BJ's Wholesale - Retail
7. Boston Scientific - Biomedics
8. Global Partners - Petroleum
9. Thermo Fisher Scientific - High Tech
10. NSTAR - Utility

Red - No Longer in Business

Blue - 2 years

Green - 3 years

Brown - Sold but still in business

Source: Boston Business Journal Book of Lists for 1990, 2003 and 2008

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World Events

Item	1990	2003	2008
President	George Bush	George W. Bush	George W. Bush
Mass. News	William Weld – Governor, expects \$700 million budget deficit - Boston Globe – January 1, 1991	Mitt Romney – Governor, expects \$3 billion budget deficit - Boston Globe – February 12, 2003	Deval Patrick – Governor, expects a \$1 billion budget deficit - Boston Globe – January 5, 2007
World News	Iraq invades Kuwait – potential war in Middle East against Iraq	Potential War in Middle East with Iraq	War in Middle East with Iraq
Technology	World Wide Web debuts	Wireless Office	World Wide Web 2.0
World Economy	East and West Germany unite – Communism Ends in Russia	Euro appreciated by 21 U.S. cents this year. Enron and MCI/Worldcom financial fraud	Chinese Economy Explodes



Do we operate or should we operate differently in a recession?

- Work ethic
- People focus
- Customer focus/market focus/pre-qualification standards
- Process improvements
 - Delivery system
 - Communication system
 - Strategic initiatives
 - Change initiatives
- Measure what's important/establish accountability in your organization



People: Develop Future Leaders

- “Who” questions come before “What” decisions
 - Bus Theory
 - Who’s on?
 - Who’s off?
 - Is everybody in the right seat?
 - Where do we drive it?
 - The “right” people are your most important asset
 - “Right Person”
 - Character traits
 - Innate capabilities
 - NOT – knowledge, background or skill!



People: Points

- Be Rigorous in People Decisions
 - When in doubt DON'T hire
 - When you need to make a people change
ACT
 - Schedule your best people on your biggest opportunities
 - Mentor/empower people who give energy, not drain it



People

- Rate/use recession as a reason to purge the bottom tier
- Fast track “Grow Your Own”
- Spend time with and mentor
- Upward evaluations – anonymous
- Encourage outside reading and continuous learning
- Do not use the recession as a reason to halt recruiting



People: Assessment tools

- Necessity
- Brains
- Continuous learning
- The rate of change and competition is accelerating
- The need to change is escalating



People: Disciplined Thought

- Develop a culture where people are heard (360 degree evaluations)
 - Lead with questions not answers
 - Engage in dialogue and debate
 - Conduct autopsies without blame
 - Build red flag mechanisms that turn information into reports that cannot be ignored



People: Disciplined Action

- Build a company full of self-disciplined people



People: Tools to Implement Behavioral Change

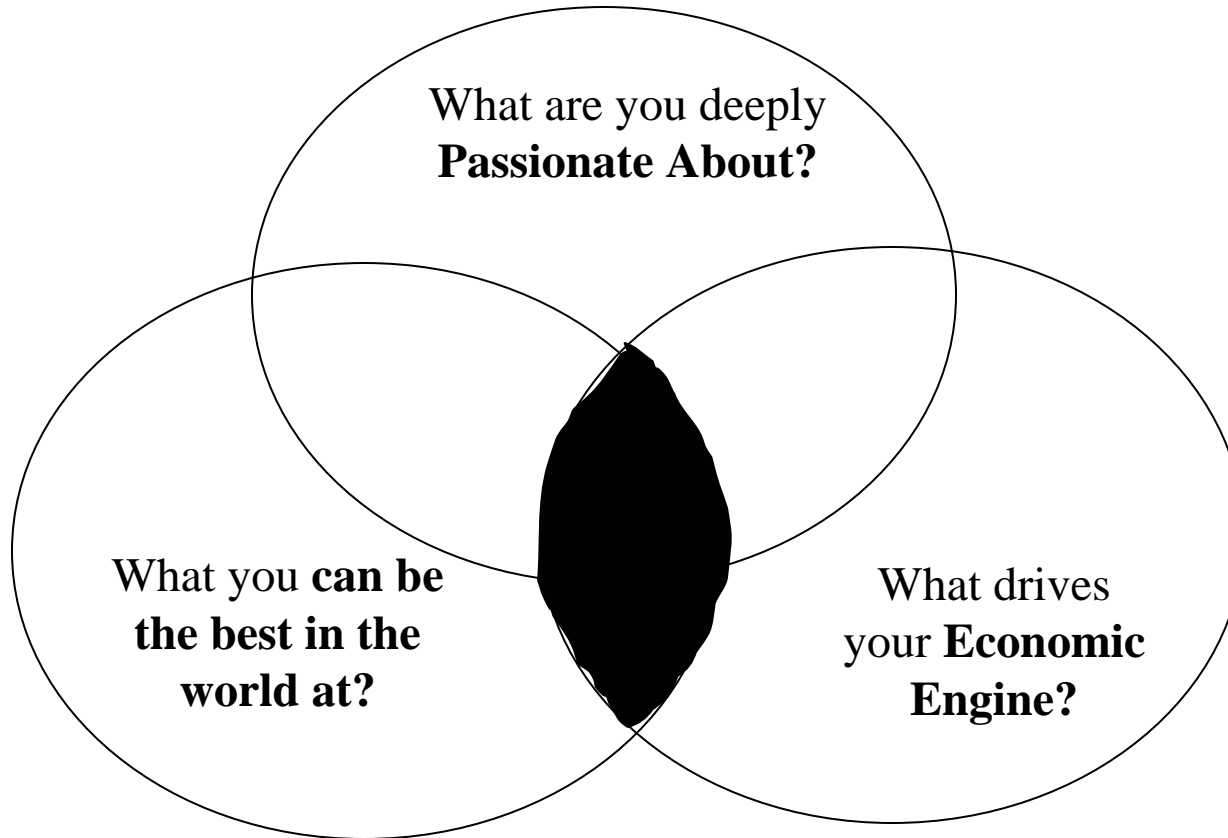
- Behavior grid
- Management best practices
 - Use a point system
- Goal setting
- Performance reviews – annual/job

People: Keys to Success

- The easy part of the story is getting there, the hard part is staying there
 - Discipline, discipline, discipline
 - Hard workers
 - Ability to change
 - 80% of companies on Fortune 500 in 1990 not on list in 2000
 - Enthusiasm, enthusiasm, enthusiasm
 - Positive, positive, positive
 - Spending more time on our people



Customer/Markets: Disciplined Thought/Hedgehog Concept



The Hedgehog Concept is NOT a Goal, Strategy or Intention –
“it is an **Understanding**”



Customer/Markets: Stop Doing vs. To Do Lists

- “Anything that does not fit the strategy, we will not do.”



Customer/Markets: Disciplined Thought

- Develop “Competitive Advantage”
- Delivers “WOW’s” to at least 30% of customers – 9/10’s measure
- Niche based – not just a good builder
- Reinforce why you are different
- Disciplined use of “Best of Class” behaviors in customer service delivery



Customer/Markets: Courage to Have a Strategy

- Need to negotiate 85% of your work
- Lack of loyalty
 - What have you done for me lately?
- Add value
- Do not deviate from strategy
- Opportunistic
- Sales analysis – Top 10 Customer “Focus”
- Analyze and develop “niche strategy” and build niche
 - Be 1-2 in industry



Customer/Markets: Customer Satisfaction

Net Promoter Principle Message

- Would you refer us to a friend/colleague?
 - This one measurement tells you if you are delivering as promised
 - Customer loyalty is the key to profitable growth
 - Accountability is a must!
- CEO must send a strong message throughout the organization for:
 - Customer satisfaction
 - “WOW” delivery
 - Differentiation



Customer/Markets: Customer Satisfaction and Culture

- How do I introduce/enforce “Customer Satisfaction” in my organization?
 - Ask the ultimate question ("How likely is it that you would recommend our company to a friend or colleague?") and very little else
 - Choose a feedback scale that works and stick to it
 - Aim for high response rates from the right customers
 - Report relationship data as frequently as financial data
 - Use granular data to make employees more accountable
 - Audit to ensure accuracy and freedom from bias
 - Validate the score's link to behaviors



Process Improvements

- Re-engineer all mission critical processes
 - Marketing/branding
 - Estimating
 - Business development/proposal process
 - Project Management
 - Buyout/purchasing
 - Budgeting/estimates to complete
 - Project kickoff
 - Labor coordination
 - Material coordination
 - Subcontractor coordination
 - Contract agreements
 - Change order management
 - Field to office communication
 - Project closeout



Process Improvements

- Accounting
 - Payroll
 - Accounts payable
 - Billing
 - Cash receipts/collections
 - Risk management
 - Financial reports
- Human resources
- Technology



Breakout Session

- What the 3 key metrics/issues that your organization follows while operating in a recession



Prequalification of Customers and Projects

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Contract Terms to Focus on During a Down Economy

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Key Metrics

- Gross profit \$
- Gross Profit %
- Gross \$ per person per position
- Overhead \$ per month
- Overhead %
 - Fixed vs. variable overhead
- Burden/variable overhead rate
- A/R days over 60/90 days A/R
- Underbillings \$/Days/% of equity
- Retainage as a % of open job billings
- Revenue/working capital
- Return on assets
- Return on equity



Measurements: Economic Engine

- What are the drivers of your economic engine?
 - Search for the ONE economic denominator that has the single greatest impact
 - Profit per *X*
 - Examples:
 - Profit per *employee*
 - Profit per *square foot*
 - Profit per *customer*



Management and Scorecards

- Performance Scorecard
 - Selecting profitable new markets to enter
 - Attracting and selecting the right customers
 - Driving pricing in accordance with risk
 - Reducing the frequency and severity of claims



Measurements and Scorecards

- Understand markets and customers better and to begin to serve the most profitable customers
 - Creation of strategy maps – link new measures and reporting structures to it's new strategy.



Strategic Decisions

- Customers/markets
- People
- Overhead costs
 - Now vs. then?
 - People
 - Operating expenses
 - Space
- Processes
- Strategic direction
 - Commitment to growth
 - Niche markets
 - Hire the best & brightest



Differentiation Strategies

1. Focus on customer profitability (A,B,C,D)
2. Industry focus – 2X the next competitor – dominant industry leader
3. Recruit and train – people focus
4. Develop next generation of project executives/leaders



Select the “Right Projects”

The key to making money in this business is learning which “opportunities” to avoid and having the discipline to say “no!”

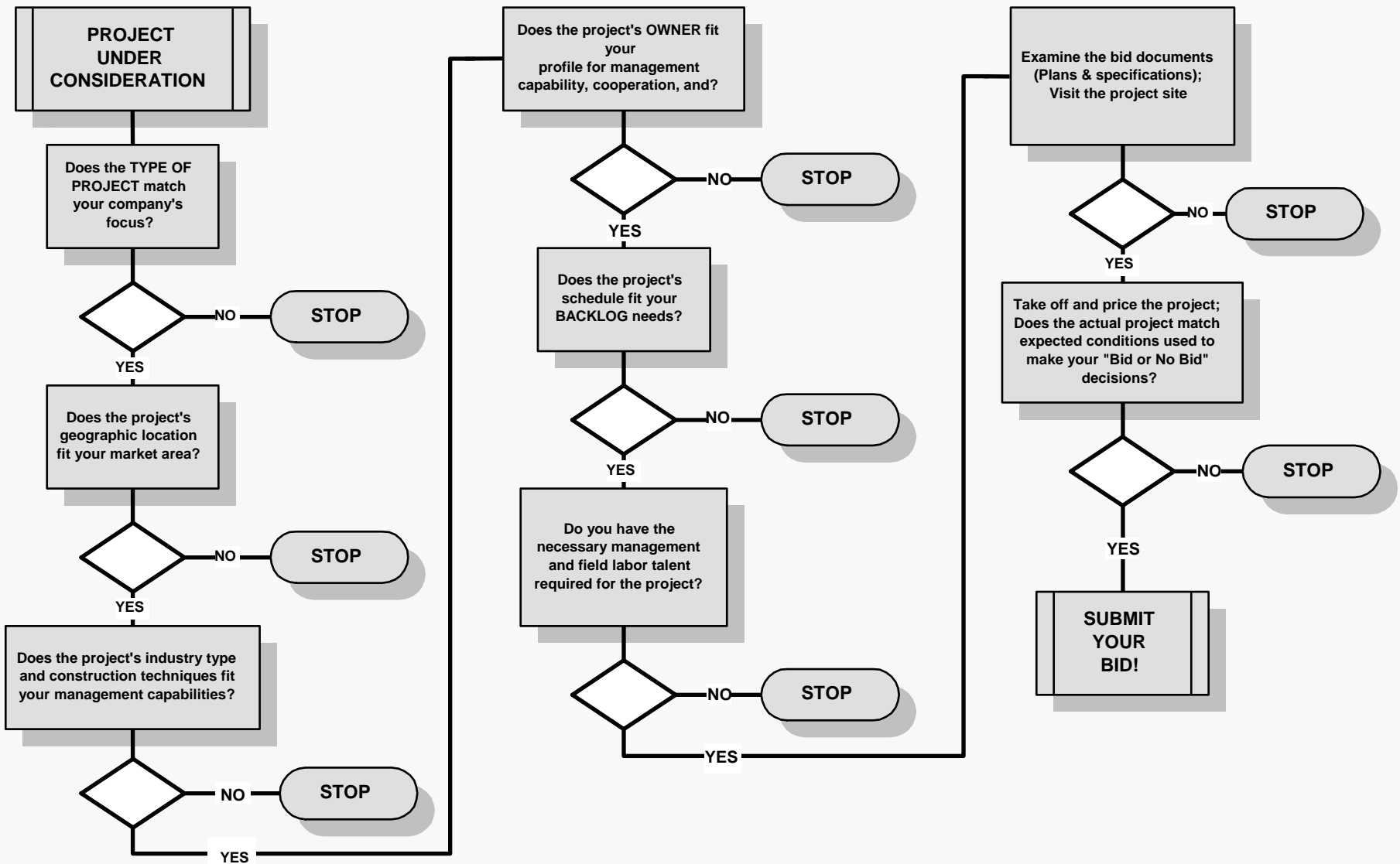


Establish a “Bid Screen”

A “Bid Screen” is a flow chart showing bidding activities and decision points (“to bid or not to bid, that is the question”)



"BID SCREEN" FLOW CHART of ACTIVITIES and DECISION POINTS



Establish a “Project Selection Scorecard”

A Project Selection Scorecard gives you criteria for evaluating and scoring the desirability of different projects



Researching Clients

- Understand the legal entity you are doing business for
- Check for claims and judgements
- Check frequency of bank changes and the pledging of receivables
- Obtain a credit report
- Look at reputation within the industry
- Ask for a copy of last years financial statement, bonding letter, customer/vendor testimonials, professional references



Warning Flags

- Accountant/bank changes
- Underbidding of projects
- Vendor avoidance
- Change in business address
 - from street address to PO Box
- No recognizable competitors on the “bid list”



Recession Strategies

1. Work ethic – higher hours at senior manager level
– service vs. manage
2. Build the balance sheet
3. A/R management – Good customers pay their bills
4. Learn what to say no to – niche strategy
5. Technology as a tool



Reading Lists

- 1990 Reading List
 - “Control your own destiny or someone else will”
 - “Discipline of Market Leaders”
- 2003 Reading List
 - “Execution” – Bossidy
 - “Good to Great” – Collins
- 2008 Reading List
 - “The Ultimate Question” – Reicheld
 - “Competing on Analytics” – Davenport
 - “What do I want to be when I grow up?” - Shriver



Courage to Have a Strategy

- Need to negotiate 85% of your work
- Lack of loyalty
- Add value
- Do not deviate from strategy
- Opportunist
- Sales analysis – top 10 customers
- Analyze and develop “niche strategy” and build niche
 - Be 1-2 in industry



Keys to Strategy

- Time management important/People focused
- Lack of top talent
- Communication
 - Cell phone
 - Email
 - PDA's
- Need to read
 - Build assets vs. business
 - General business reading

