



Savvy Owners Can Make You More Profit!

Contractors and design firms who are committed to building a client portfolio of quality owners will be more profitable, but it takes an investment and a strategy to build.

By Keith Reester

Let's start with a basic question: Would you rather work for an owner who knows their stuff or one who doesn't know rebar from rework? Your team has likely worked for both, and looking back, if you managed the project and the relationship right, you probably made more profit from the knowledgeable owner.

The fact is: Knowledgeable owners will set higher expectations and demand more exact communications, more face time, and greater collaboration. But, top-flight contractors want first-rate owners as their primary customers.

The challenge in today's ever-demanding marketplace is to find first-rate owners and to keep them as customers. Contractors and design firms who are committed to building a client portfolio that emphasizes quality owners will be more profitable, but it takes an investment and a strategy to build that base. First, let's define a "great owner." If you asked your team members, office, field, and business development personnel, most will list similar criteria:

- Know what they want and are willing to pay a reasonable price for it
- Are knowledgeable about the product they are buying
- Understand design and construction
- Employ competent people
- Are collaborative and honest
- Invest in pre-planning the project

- Understand the level of time investment their people will need to make the project a success
- Are knowledgeable about risk associated with the work and understand that they own part of the risk; if it is shifted, the recipients need to be compensated for that risk assumption
- Are proactively involved in the project — at the field level and the leadership level
- Recognize design, contractor, and subcontractor expertise
- Make clear and timely decisions
- Understand that documentation is a key part of construction today, stay current on submittals, change orders, progress reports, and RFIs, and hold the team accountable to that standard

This list was created from a brief survey of three dozen contractors, ranging in size from \$10 million to \$1 billion in annual revenue. In reviewing the list, most owners would look for the same thing in a great contracting or design partner. So it's a smart idea to start with a good look in the mirror.



LOOKING IN THE MIRROR

Take a good look at your team and how they interact with your clients. Do your field personnel run for cover when the owner's representative shows up on site? Is your first reaction to build a case for a change order, or do you proactively reach out to the owner early in a prospective change and seek input, collaboration, and buy-in?

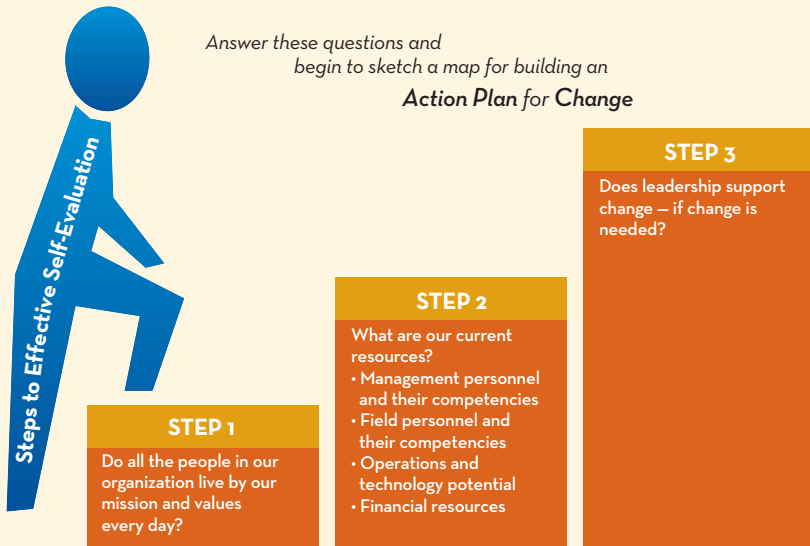
Below is a list of contractor traits. Check off each one that fits your company profile.

- Proactive in communications
- Meets committed schedules
- Meets committed quality standards
- Meets agreed-upon budget
- Controls contractor-initiated changes
- Communicates openly and freely
- Measures performance during the life of a job
- Creates relationships that are strong when the job is complete
- Creates desire to work with them again on another job
- Pays subcontractors in a timely manner
- Manages documentation and paperwork
- Manages closeout and startup well
- Creates no surprises

Now, ask yourself, would your 10 most-recent customers rate you the same way? If you have any doubts, your first step to building better owner relationships is to develop action plans for areas that need work. (See Exhibit 1.)

Exhibit 1

Building a Self-Assessment Based Action Plan

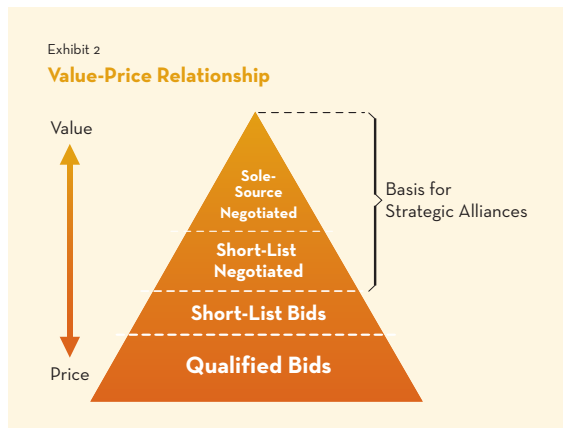


PUBLIC VS. PRIVATE OWNERS — IS THERE A DISTINCTION?

Most contractors associate public-sector work with hard-bid work, but that is changing in today’s market. Historically, many private owners chose to use hard bids for their primary project-delivery method. Public owners typically have a more rigorous paperwork and pre-qualification process and a greater ability to contest a bid award, but ultimately, it is not the difference between public and private that matters. The crucial component in ascertaining an owner’s aptitude for “savvy,” is their willingness to look at more than price.

In an article from the *Contractor’s Management Journal* (FMI June 1999) entitled, “Owner-Contractor Strategic Alliances: The Price-Value Equation,” Chip Andrews and I highlighted this critical view on price vs. value. (See Exhibit 2.)

“When decision-makers are building a procurement framework, some decisions are made solely on price, while some focus on value. The value-price relationship is built on the theory that some items are purchased solely on price, while some others are based more heavily on the overall value. Commodity items, usually purchased on price, are typically interchangeable from supplier to supplier.” Further that, “...when products and services are value purchased, buyers typically consider the TCO (Total Cost of Ownership) and value added due to unique knowledge or processes.”



Determine whether the products and services you provide are viewed as a commodity or a value purchase in your marketplace. If the product line offered is a commodity, then a good look needs to be taken at your organization's strategic

Most owners seldom feel as if they are rolling in cash, so cost sensitivity is always on their minds.

tend to feel this even more acutely as demands for general fund tax dollars continue to rise from the constant pressure of social services and a general public malaise for tax increases. Recognizing that an owner has cost objectives for a project is critical, and the necessity of hitting those targets is of vital importance to the owner's project manager. In a recent remodel project in Northern Colorado, several design-build teams offered their services, and in only one case did the team bring a number with contingency that was within the owner's budget.

The owner's project budget had been included in the RFQ documents, so every team was aware of the top end. Guess who got the project? The other designs were similar and met the owner's need, but the owner interpreted the other bidders' offers as not sensitive to a critical need of the owner — value for the cost.

Every day owners are seeking faster schedules from designers and contractors. Every day that a facility is operational is money in the owner's pocket. Contractors and designers have been working in this environment of tight schedules for more than 20 years now and should be able to



work with the owner to create reasonable expectations for performance. Contractors or designers need to bring that expertise to the table in a proactive manner to help owners best capitalize on their budgets; owners are not just paying for speed — they're paying for expertise.

On the other hand, some owners want to get a hard-bid price and then knock it down. General Motors' value-pricing strategy from the 1990s is a good example. In this case, it only took a couple of bid cycles before everyone in the market knew how the game was played, and

marketing plan to determine if there are areas where more value-added services should be fostered. Most services that are offered lie somewhere between pure price and pure value. With that in mind, let's look at some methods whereby you can assist an owner in becoming more savvy.

THE CAPITAL FISCAL CRISIS DRIVES BUDGETS AND SCHEDULES

Most owners seldom feel as if they are rolling in cash, so cost sensitivity is always on their minds. Public owners

Lesson No. 1 for building a savvy owner: Determine where your product is on the price-value equation for each prospective owner and target the value-minded owner.

Lesson No. 2 for building a savvy owner: Work with owners in non-project/sales framework to help them build expertise and expand their palette of choices for project delivery.

contractors and designers began adding a “premium” into the bid, or would win the bid and staff the project with new designers or a less talented team.

BROADENING THE PALETTE OF CHOICES

Hard-bid procurement is the most streamlined and least complex for an owner organization, and there is a perception that because you have a low price you have assumed value. Additionally, the low-price method allows owners to use little company staff to complete projects by outsourcing work to design firms. The second critical step in building a knowledgeable owner is working with them to broaden their palette of choices in project-delivery methods.

Many owners, especially in the public sector, are burdened by the limited methods with which they can deliver projects. Many communities have strict limitations in their legal code, while many private owners have a company-purchasing policy that limits their choices. Working with an owner on the professional front to assist them in broadening their choices for delivering projects is essential. We’re not talking about lamenting during a sales call about their lack of ability to use design-build. Working with an owner in a non-sales or non-project mode to help them build their choices is the most successful approach.

This approach serves two purposes. First, it builds a relationship with the client or potential client, and second, it allows discussions about alternative-delivery methods without the clutter or pressure of a specific job or sales pitch. Provide owners with examples of other companies using non-hard-bid methods and give them contacts. Show them job post-mortems on the pluses and deltas of completed projects with different methods. Seek to work with them to overcome hurdles to success and listen to what they perceive as the major obstacles to project-delivery alternatives.

It will be amazing how fruitful these discussions can be even with no specific project hanging in the balance.

Exhibit 3 is an example of how you might start this discussion with an owner.

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LISTEN — DON'T HEAR

Do you have kids — a teenager? Even if you don't, you probably know the difference between hearing and listening. Hearing only connotes that you perceived sound; listening involves more — paying attention and trying to understand the communicator's message. In the 2003 CMAA survey of owners conducted by FMI and CMAA, the one item noted most often was communication.

You can create savvy owners by listening to them and helping them overcome

Exhibit 3

Mile High City, Colorado

Delivery Method	Currently Used	%	If "Yes," Why? If "No," Why Not?	Obstacles To Use	Types of Project/Market – Best to Use	Needs
Hard Bid	Yes	20	Good for commodities, i.e., asphalt			
Qualified Bid	Yes	55	Most common – purchasing supports			
Short-List Bid	Yes	15	Only for very large jobs			
Short-List Negotiated	No		Closed negotiations prohibited by code	Code/City Council		This would be a helpful method especially for design/engineering work
Sole-Source Negotiated	No		Closed negotiations prohibited by code	Code/City Council		
Strategic Alliances	Yes	5	Yes, but only for transit services with another governmental agency			
CM	Yes		Yes, but for specialty jobs such as fire stations			
CM/GC	Yes	5	Common approach used for park projects. Why? Had good success in the past – not very common outside of that department			
Design-Build	No		Available in the code for use, uphill battle for use with purchasing and city council	Code/City Council		Education of purchasing and council – examples of successes
A+B	No		Purchasing does not like this method			

Other Notes

- Council must approve contracts over \$500,000
- Professional services – purchasing OK without bids up to \$100K
- Non-Professional services – bids above \$15K

their obstacles to success. Too often we offer OUR solution to their problem vs. helping them collaborate to create a jointly-owned solution. From a historical perspective, the relationship triangle between owner-designer-contractor has always had a heavier bond between the owner and designer. Contractors lament this relationship as bad for the owner, bad for the contractor, and bad for the project.

Why do you think the relationship between owners and designers is often so much stronger? The designer has an inherent advantage — the design team has the ability to turn the owner’s ideas into something more concrete, a design, a set of documents. The designer has to listen to get something out the door; very seldom does an owner give a designer the “green light” with no parameters. By the time the owner has put documents out for bid, they have built a partnership with the designer, and the owner views the designer as an ally. The first thing many contractors do is question the documents and the design, immediately forcing a confrontational approach with the owner and designer. Is it any wonder that the relationship bond is stronger between two allies? So what is the alternative?

Lesson No. 3 for building a savvy owner: Listen to owners first, then assist them in developing a plan for success. The more proactive every member of the team is on the communication front, the greater the chance for success.

First, work with owners to invest in pre-bid activities, such as conducting comparative-cost estimates by contractors, holding a peer review of the design, and defining clearly before the job is

awarded how the collaborative process will work to strengthen the documents. Listen to their internal process for decision making, and help them to influence their decision makers to make more timely and accurate decisions.

INVEST IN MUTUALLY DEFINING EXPECTATIONS & PARTNERING FOR SUCCESS

Numerous contractors, owners, and designers have tried partnering and had mixed success. Most often you hear statements like, “It was too ‘touchy feely;” “We all felt good about the project, but we didn’t have any specific plans;” and “There was no follow-up.” All these are valid experiences, but the best investment of a good high-performance team approach is to invest the time up front to define expectations for communications, issue resolution, and proactive involvement at the executive level. Admittedly, if you don’t invest in follow-up and accountability, then the value is substantially reduced over the life of the project. In a recent interview, one construction CEO said, “I will always invest in partnering before a job hits the ground; it allows us to hit the ground running and to make substantial headway in defining channels of communications. I know that I will get that money back five-fold if we avoid even one major issue on the job.”

If you have used partnering or team building on a job, look back and do a post-mortem on why it was successful just like any other portion of the job. Building a relationship with a facilitator that can be successful with various owners can be valuable. Also, don’t forget to share your partnering experiences with an owner in the non-project approach as well.

Lesson No. 5 for building a savvy owner: Help owners to develop a vendor-owner evaluation program by creating a two-way street of communications to enable future project success.

Lesson No. 4 for building a savvy owner: Set mutual expectations for communications and team ground rules — partnering is one of several good methods to achieve this end.

VENDOR/OWNER EVALUATION PROGRAMS

Nearly every owner, even the ones that are “old-school hard-bid,” has added the clause “lowest responsible bidder” to their bidding documents. The problem is that being “irresponsible” is usually difficult for an owner or another contractor to prove. Some items most companies would see as irresponsible are:

- History of claims
- Making profit margin after the bid with change orders
- Poor safety record
- Previous poor performance on a job — but not bad enough to warrant a claim
- Reputation for poor onsite communications with subcontractors or the owner
- Poor payment history to subcontractors

Some owners have successfully invested their own resources in developing vendor-evaluation programs that clearly allow vendors to be rated on a regular basis. These programs are good from the standpoint of creating a basis for identifying irresponsible bidders, but fall short of realizing their maximum potential. The truly

savvy owner understands that all four legs of the project team need to be evaluated to capitalize on the learning process. The four legs are: owner, designer, contractor, and subcontractors.

Encourage owners to evaluate their own vendors as well as having vendors evaluate owners and other project peers; this can provide tremendous value. Vendor-owner evaluation programs need to be well developed and have clear outcomes, as well as open lines of communications, to be successful. Otherwise, responses will be written with an audience in mind and truthful information will be fleeting.



BUILDING THE SAVVY OWNER

For many business-development professionals, it may seem that the process of building a savvy owner is the same process as building a quality customer relationship. But, if you step back and look at the relationship beyond the sales situation, it will become clear that it is more about making the owner an ally in knowledge. When was the last time your firm invested in the education of owner clients beyond a new product offering? Have you ever teamed up with a competitor to present an owner's workshop? When was the last time you worked with the field staff to help owners win?

Don't simply reevaluate your business-development program when building owners. It is critical that every person in your organization and every firm you ally with on a job is interested in the same outcome — success for the entire project team and the relationship between those component companies. Take the above five lessons to heart and invest in building better owners because if you do, you will see more profit on your balance sheet. ■

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Case Example: MAPP Construction, Baton Rouge, La., Annual Owner/Subcontractor Forum

For the past five years Mike Polito, president of MAPP Construction, has invested in his owners and subcontractors. One day each year, MAPP hosts an Owner/Subcontractor Forum. In the forum, the MAPP team, from president to field personnel, comes together to hear a panel of owners talk about what makes a great contractor and how each owner sees the world a little differently. In the afternoon, a similar panel of subcontractors comes together to share their insights. In both cases, the panelists are both clients and non-clients, and employees are encouraged to ask questions and share ideas. The session is facilitated by an FMI consultant.

The session always leads to great insights into the relationships that we all foster on projects. It also builds a sense of camaraderie across the industry silos that usually exist. One common theme expressed by panelists is that taking the time and resources to invest in this effort shows that MAPP cares about what we think, and that's not the norm in this business.

Public Works Department Leads Vendor-Owner Evaluation Charge

In a recent example, the Public Works Department of the City of Loveland, Colorado, undertook the development of a department-wide, vendor-owner evaluation program. The city of 60,000 in Colorado's North Front Range is one of America's fastest growing cities and was chosen in 2002 by the AARP as the best place in the United States to retire. The department has an annual \$15,000,000 capital program, which includes infrastructure, stormwater, structures, and facilities programs to support and add to 650,000 square feet of space.

For several years, the department had added the "lowest responsible bidder" clause to their documents, but had never exercised that right due to lack of legal leverage. In 2003, the department undertook an internal initiative to develop a program to evaluate all vendors and to have all vendors evaluate the city as a partner in the process. The team involved identified several key areas to tackle:

- Pre-job expectation agreements (both formal and informal)
- Regular evaluations throughout the life of a job
- All evaluations must include a self-evaluation component
- Post-job evaluation framework
- Process to share "mid-stream" evaluation results with the team for improvement
- Framework for vendors to provide value-added opportunities for improvement suggestions in a non-bid evaluation environment
- Evaluation forms that are consistent across vendor category, with variations for professional services, commodity products, and construction
- Evaluation forms that are easy to complete, clear in their directions, available electronically and over the internet

First, the team researched vendor-evaluation programs of other companies around the nation and vendors that the department already had under contract. After this initial phase, the team developed a core group of vendor partners to seek feedback and input from in the process. The vendors ranged from office-supply vendors to contractors, architects, and janitorial services.

"Vendors were excited to hear that we were pursuing this program and readily offered to assist our efforts," Public Works Engineering Manager David Klockeman said. "Several commented that this would only help our organization be successful, and the chance for two-way communication was tremendous. I think our program will help the really good companies be more effective in not only getting work from us, but from other owners as well."

In the first quarter of 2004, the city began piloting the program with several vendors. Their goal is to have every vendor serving the department on board by the fourth quarter. The greatest lesson learned in this process is that good companies will take every opportunity to improve performance — helping owners embrace this approach will help every team member.