

Capitalizing on Market Intelligence

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Winning battles requires good strategy and solid tactics. In a military setting, strategy builds on the mission and intelligence gathered about the terrain, enemy and conditions, while tactics translate this intelligence into a plan of action. In construction, contractors build their strategy on market data that illustrates trends, shifts and projections. This intelligence can lead to tactics for taking advantage of a certain market using the flexibilities of being open shop, plus utilizing technology onsite to ensure profitability and success.

Market Intelligence

Measuring the construction market is a multi-dimensional feat, and none of the dimensions are covered by any single source of data. The most all-encompassing measurement of how much work is available to contractors is construction put in place (CPIP), as reported by the U.S. Census Bureau. The contribution of the industrial, commercial and residential markets to the overall market size has shifted during the last several decades and even within the past few years (Figure 1). Not only are markets shifting nationally, but regional and local factors also paint a different picture for each company. Further breakdown is needed to show available work and trends in specific market categories.

So, how can this market intelligence be used as an advantage? Let's create an example of West Coast Contracting, a mid-size

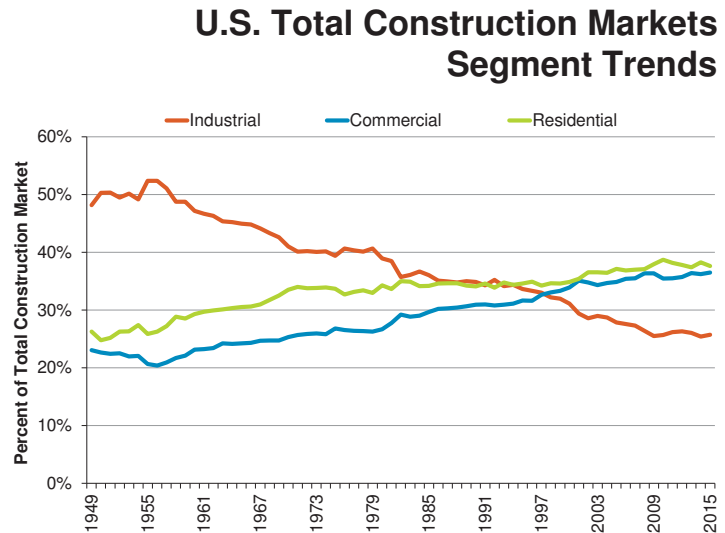


FIGURE 1

open shop general contractor with offices in Portland, Ore., Northern California and a small operation south of Seattle. Assume West Coast Contracting used a market study to determine the CPIP and its segments, and then went one step further to study the growing commercial segment and its breakdown (Figure 2).

The results show they have a growing opportunity in the general commercial market, which includes automotive, food and beverage, and small and large retail shops. At the same time, while the office market is strong, the manufacturing market is in its fifth year of decline, and some relatively small markets are increasing and ripe for growth.

Assume West Coast Contracting has no history in the general commercial market, has some presence

in the office market, and its current strength is in the education market. In addition, the company is working with a long-time customer in the pharmaceutical market that is getting tougher to work for and make a profit. West Coast Contracting must gain a foothold in these growing markets to ensure profitability and backlog for the next few years.

Strategy and Tactics To Gain a Foothold

The strategy begins with market intelligence, but also requires a plan of attack. In the case of West Coast Contracting, by studying the market categories and their geography, it is clear the firm will face tough competition if it competes head-to-head for office and commercial work in any of the

city centers (e.g., Portland, Seattle and San Francisco). As such, the first approach is to compete at the fringes of the cities, learn the market, figure out how to compete and gain a foothold with key customers. This can be accomplished with one or two projects. Then, West Coast Contracting can work on moving into the saturated city centers, which will have more work available.

Now that the strategy is in place, the tactical planning begins. The margins available are slim in low-end commercial and office work, even at the outskirts of the cities. West Coast Contracting will have to focus on reducing its cost structure to be able to compete and win projects. One advantage it has is flexibility in crew structure. To take advantage of this, West Coast Contracting will rely on its strong supervision and core workforce to travel into the outskirts, paying them per diem for their travel but without having the burden that other contractors have on their wage packages. Local labor can be hired as a mix of skilled and unskilled crew members to keep the composite rate low.

The second tactic West Coast Contracting will use to enter these new markets is to get ahead of the technical elements of the work with in-house training. Although the company's carpenters and masons are well trained, West Coast Contracting will dedicate one full week (paid) for the workforce to tackle this unknown market, using a mix of technical learning and practicing for integrating risk on

Sample Market Size Trends of Detailed Commercial Categories

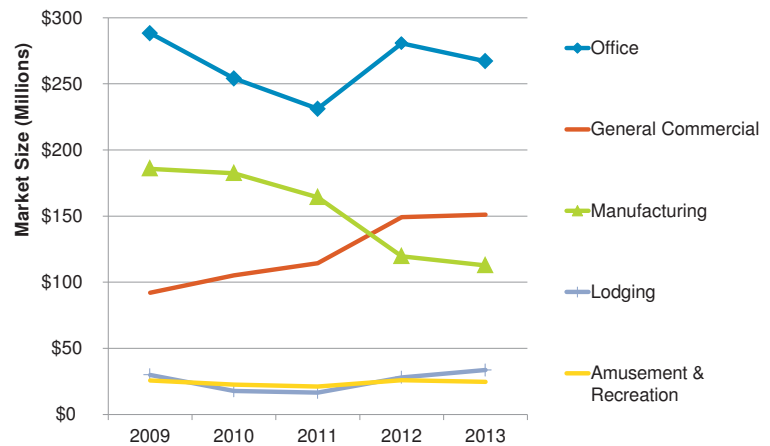


FIGURE 2

the jobsite with an unknown labor force, unknown customers, and unfamiliar means and methods. They will use agile construction principles, such as Work Breakdown Structure, productivity measurements and short interval scheduling, to gain information about the projects and learn as they go.

Taking Ground

Once the foothold is secure, the next step is to expand on its capabilities and flexibilities to be profitable and disrupt the market by providing lower costs and better outcomes to customers. The company then must gather additional market intelligence to understand the current local labor costs and composite rates in the city centers so it can structure its cost just below the going rate to be competitive.

In any type of work, segregating work and externalizing it from the


jobsite are the biggest opportunities to reduce risk. Reducing manipulations of final assemblies onsite through prefabrication helps diminish the cost and risk onsite, especially in an unknown market with an unknown labor force. One advantage West Coast Contracting can leverage is an established prefabrication operation, where it can service any projects locally, regionally or nationally, regardless of jurisdiction and whether the job is prevailing wage.

In addition, as distribution methods evolve, West Coast Contracting can manage its inventory and vendors by using a fully integrated logistics solution. Every piece of material and equipment can carry information about its purpose, its path to final location and installation, its timing and availability, and more. By

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partnering with key vendors that are capable of this level of procurement, the company can minimize field and project management time spent dealing with materials and logistics, expanding its capacity to take on more work for lower costs and with the same workforce.

This example of West Coast Contracting is not unique to the commercial and office markets. Any contractor of any size and type can use market intelligence to understand available and potential market segments to enter. Open shop contractors have the

advantage of flexibility in geographical movement, crew structure and crew mix that allow them to be strategic in disrupting markets by starting at the fringes to service underserved customers, and then moving into the mainstream of the market at a competitive price, yet high profit margin. 

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