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Shifting Markets

SYSTEM PRODUCTIVITY CAN HELP RECOVER MARKET SHARE

MARKET SHARE HAS BEEN ONE OF THE PRIMARY measurements of business since the early 20th century. It is a measure of the performance of an organization relative to its competitors in a particular industry. Share of the market, although an indicator of relative strength, does not independently justify any concern (or lack thereof) for the health and wealth of an industry or organization. Profitability, productivity and market share need to be evaluated simultaneously in order to gauge the individual success of any operation or organization.

To develop a strategy that will allow expansion or recovery of the market by any organization, the entire economic market size and trends need to be recognized by correctly and consistently measuring the market using a common definition. Then, to regain or expand market share, all the root causes of erosion have to be addressed.

For example, current measurements of the size and share of the market for the signatory contractors and International Brotherhood of Electrical Workers (IBEW) show a 30-year decline, independent of the methodology used to calculate. Figure 1

identifies some of the root causes of union market-share erosion.

The IBEW and National Electrical Contractors Association (NECA) workers' historical approach to market dominance has been that of supply-side control. This practice was very useful during the era when the industrial work, which required a specialized work force, dominated the electrical market. By controlling the number of electricians entering and remaining active in the work force, IBEW controlled the market and pricing.

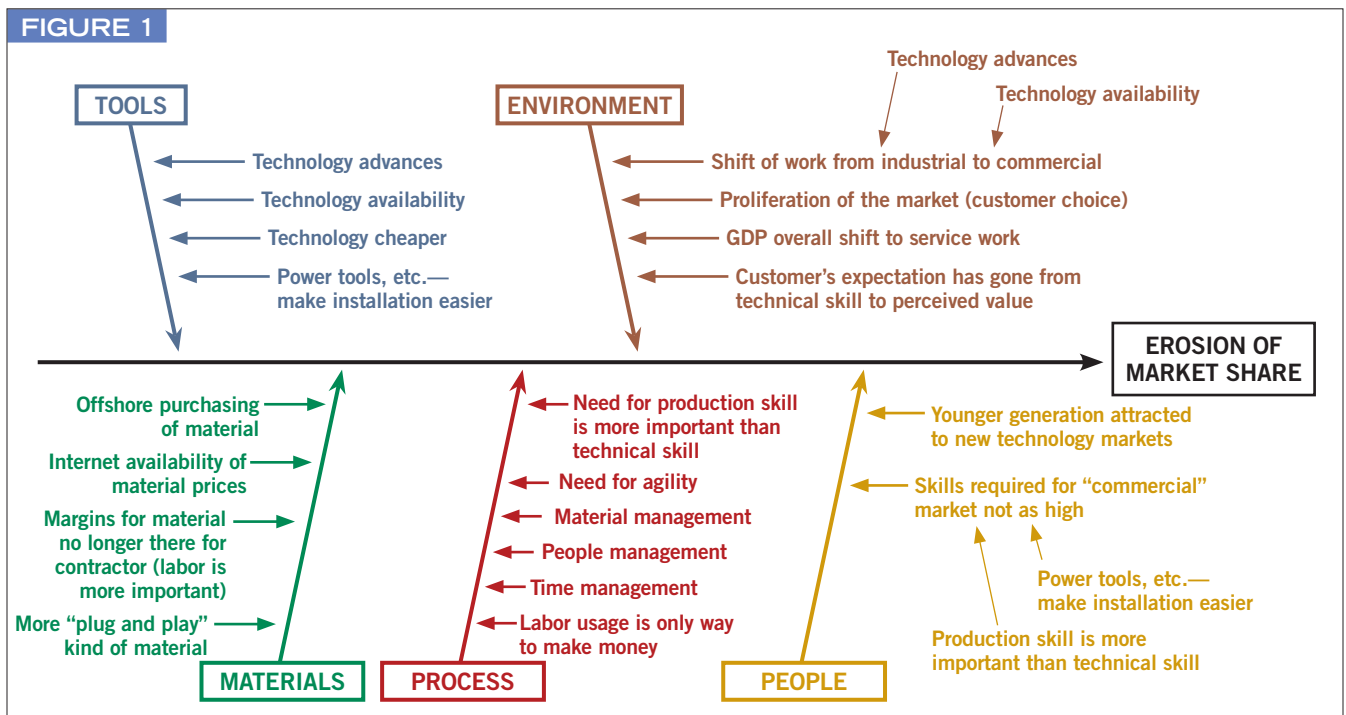
Mirroring a trend in the construction

market that saw a shift from industrial to commercial/residential construction in the 1960s (see Figure 2), the electrical construction market made its own shift from more than 50 percent industrial work to more than 50 percent commercial/residential work in the late 1990s (see Figure 3).

American Demographics predicts a doubling of the current floor space as the U.S. population is expected to increase by another 20 to 25 percent over the next 20 years.

The market shift has drastically reduced the threshold requirements for entry and level of expertise. Supply-side control is no longer as effective. The expanding commercial and residential market is driven by the customer's demands for growth and doesn't require the same proportion of specialized electricians. New players enter the market with less technical expertise in a commodity market driven by demand-side control.

It is of utmost importance to realize



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that the historical supply-side control of the industrial electrical market should not be relinquished; new strategies for more aggressive expansion into the commodity markets presented by commercial and residential growth should complement existing doctrine. Contractors can only control market share if they are profitable. In a commodity market, the contractors can only be profitable if they are low-cost providers.

Low cost is not the same as cheap. Low-cost providers of electrical installation and services provide high-quality work at a lower cost through higher system productivity. Low-cost providers in a commodity market can offer profitable market-based pricing, enabling them to increase their sales. Increased sales will increase employment. Better use of specialized electricians will allow the contractor to increase the portion of the labor market it controls.

Therefore the market share will increase, presenting the opportunity for additional collaboration. Higher profits enable better training and usage of technology, lowering the costs of providing services and increasing the funds available for strategic expansion (see Figure 4).

Regaining lost market share has to start with focus on the system productivity through reduction of the five limiting factors, which enables increased profitability of the contractor. The limiting factors are the following:

1. Number of available electricians
2. Composite ratio
3. Portability
4. Required technical training levels and skills of electricians
5. Lack of system productivity by weak labor management

The measurable shift in the electrical construction market from industrial work to commercial/residential work has the following effects:

1. The commercial/residential electrical construction work does not require as many specialized electricians per dollar as does the industrial work. Appropriate use of a less technically skilled labor force

FIGURE 2

Construction market by category

as indicated by Electrical End Use (EEU)

Category percentages of total electrical construction market (as indicated by EEU)

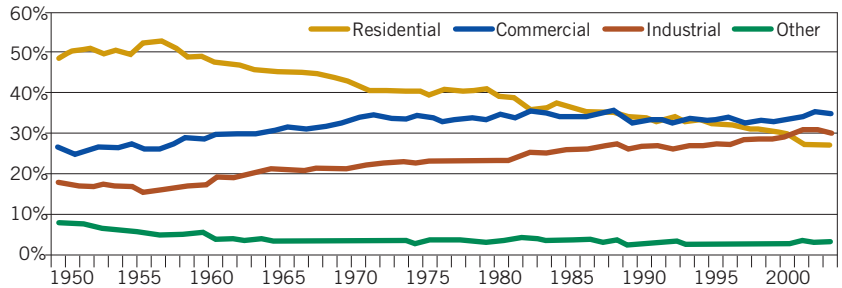


FIGURE 3

Electrical market size by category

Category percentages of total electrical construction market

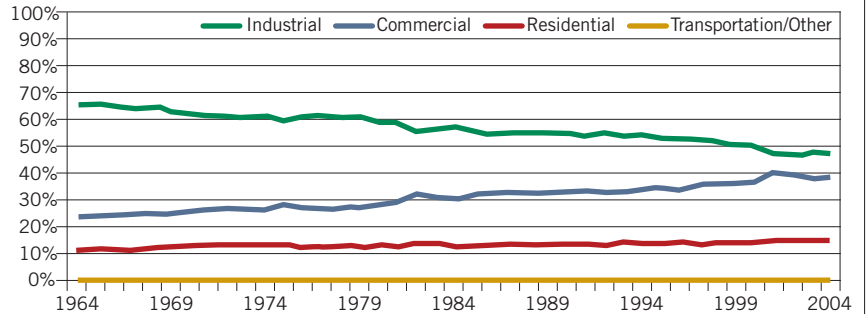
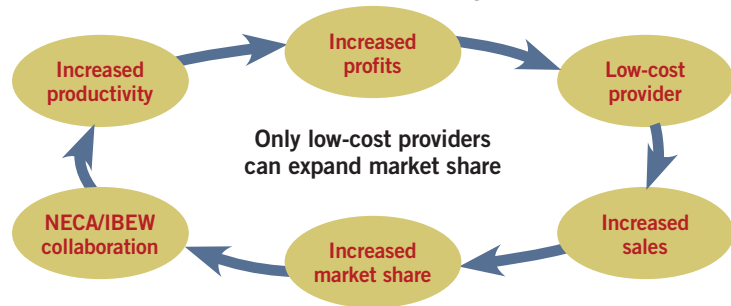


FIGURE 4

The market share cycle



allows greater expansion into the commercial/residential market.

2. Portability and crew composite ratios play a much bigger role in the commercial/residential environment than in the industrial environment.

3. Management of the work force in commercial or residential work environment is much more critical than in industrial. In addition, the commercial/residential work environment requires the training and education of the work force in areas of material handling, people management, time management and other managerial skills.

A strategic plan that allows for sustaining, regaining and expansion of the market share will require a very careful investigation of the following:

1. Environment (markets)
2. People (skills)
3. Process (management)
4. Material (handling)
5. Tools (technologies)

Every one of these factors impacts every contractor's ability to succeed and will need to be examined in light of the new requirements in order to remain successful as the electrical construction market continues its shift.

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