



FMI
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It's a New Day, Canada

By Cynthia Paul

Technology connects us, informs us, entertains us and changes the way we think, but how is it shaping customer expectations in the construction industry?

Coincidence or causation? You do not have to look far to find technology disrupting societal norms. From the mundane to the complex, technology changes are reinventing the way we think about the speed of service, quality of goods and services, and the price we are willing to pay.

Stand in a long checkout line today and you are apt to notice someone checking Google or Amazon to see where else he or she could buy the items more efficiently. With Amazon Prime, you have the advantage of quick ship, and you will find your purchase on your doorstep in a couple of days, or even within hours. Today you can get prepacked food complete with recipes and ingredients sent to your door to expedite the home cooking experience. Want chicken parmesan? Uber Eats will deliver it from your favorite restaurant while you chill the wine. And if you want to watch your favorite movie while you eat, say the word, literally, and your remote control will do the rest.

We have seen the impact that Uber and Lyft have had on cab companies, rental cars and car dealerships. Once a movement starts and gains momentum, innovation launches it into new applications and services. Anyone want to share a ride from Montreal to Toronto? Companies like Kangaride are taking the ride-sharing approach and expanding to longer-distance travel. You now have an app that allows you to join a driver and a “crew” of prescreened strangers all sharing that same ride to Toronto.

Technology connects us, informs us, entertains us and changes the way we think. From checking prices to finding product knowledge, we are armed with technology that gives us real insights and choices. Certainly, retail construction is being impacted by technology. Autonomous vehicles, for example, will

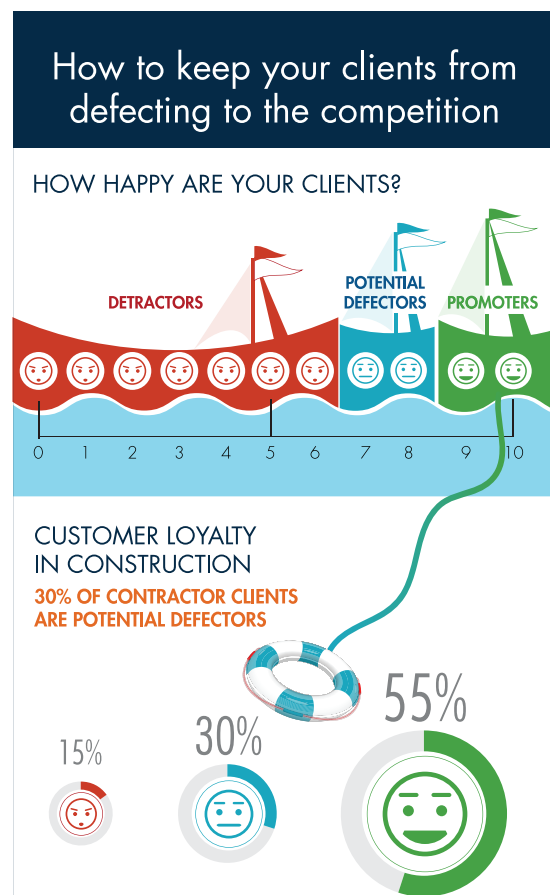
challenge how the industry plans for commercial office space, institutional projects, auto dealerships, road renovations and garage space availability in residential properties. And if you are focused on serving the higher education market, e-learning and online degree programs are bound to impact education construction and your business. **But the bigger industry impact of technology is how it is shaping customer expectations across the engineering and construction (E&C) landscape.**

The Industry Is Not Immune to Tech Changes

We are in an age of immediate gratification, multiple companies vying for our dollars and apps to make our lives easier. The result is a mentality of better, faster, cheaper. It is no wonder that customer expectations are changing across Canada. Some of these changes depend on location and the specific type of work, while others are more generic. All of them can be problematic. Here are a few examples:

- **More for Less.** Nationwide, profit margins are not fully back to pre-recessionary levels. Contractors are still reluctant to make significant changes to pricing, even though the breadth of available talent is limited in many organizations. From Vancouver to Toronto, we hear that subcontractors have led changes in pricing, which makes sense as they are the first to struggle with labor shortages. Construction manufacturers and commodity producers have gained price increases, yet the industry has been in a slow and steady expansion for years. Normally, at this point in an economic recovery, construction prices would be moving up consistently.
- **Dropping Loyalty.** Customer expectations continue to rise, and justifiably so. Contractors are rethinking what it really takes to capture customer loyalty in this immediate response, app-based world. If you fail to gain customer loyalty, then how can you effectively deliver on customer expectations and scope without overcommitting resources and cost? Customers will, of course, ask you to give them a greater level of service than they are paying for in the contract; it is in their economic interest. It is in your economic interest to make a business decision that balances your concessions (that may gain loyalty) with profit.

One example comes from the oil sands, where owner organizations have started shifting from using Master Service Agreements (MSAs) that spanned three to five years to using one-year contracts. At that level, the MSA might only be viable for one project. How much can a contractor invest in technology and infrastructure to improve that customer's experience when its ability to leverage that investment over multiple projects is dramatically decreasing?



Data Source: FMI Research Services. Statistics are based on more than 5,000 contractor-client responses. For more details, see ["Three Ways to Keep Your Clients From Defecting to the Competition."](#)

- **Risk Shifting.** A continuing trend in the industry, owners have used contracts to shift project risk to construction managers and general contractors—both of which are doing the same thing with subcontractors and vendors. Assigning risk to the entity that can best control that risk makes good business sense, but accepting additional risk for no additional remuneration does not.

Technology has become another element in risk shifting. BIM, 5-D modeling and other innovations add enormous value for both the project owner and the team. They allow not only for real-time shop drawings but also for early decision-making and issue identification before problems arise on the project. As contractors begin to engage in larger and larger projects and provide design-assist and design-build services, they inadvertently set up contractors for potentially more project design risk.

We've heard about instances, both in Atlantic Canada and on the West Coast, where owners expected construction teams to provide solutions that have traditionally been the purview of the design team. For example, when does suggesting punching a hole in a beam to resolve a clash move from good construction practices to accepting the risk of the engineering integrity of the project?

Other examples include owners asking contractors to include the design team deliverables on the project schedule. If contractors are not careful, they can slip over the line of doing the customer a favor by making the design delivery visual and accepting the risk of managing the engineer's schedule and deliverables.

Getting From Here to There

We have long been taught that all risks should come with an appropriate level of reward, but we aren't seeing that give-and-take in the industry today. The fragmented nature of construction makes sweeping changes in the industry difficult, if not impossible. What will it take for the industry to right the risk transfer challenges being faced by contractors? How does the industry get paid for the value it's providing when there is always another contractor willing to step in and accept the contractual terms and conditions?

If value is defined as something that a customer is willing to pay just a little more for, we need to find out what customers truly value and what they expect for free. As long as the industry is willing to do things for free, we cannot expect customers to stop asking for them (e.g., preconstruction, access to our top talent, GMAX contracts where the savings only benefit the owner, etc.).

Here are a few of the things we are doing with clients that have helped them move the needle and get a bit more money for the value provided:

1. Get fact-based—from market strategy to the project approach.

- a. Which customers are willing to spend just a little more for your services?
- b. Where is the market growing and expanding, and how do you get your fair share?
- c. What do you offer that they cannot get from all the other contractors? (You'd better have a good answer for this, or you are destined to compete on price.)

2. Know what it really costs you.

- a. If you are going to give something away for free, you should at least know what it really costs you. For example, the cost of developing a proposal for a new or existing client can be significant. Knowing what those costs are and understanding the chances of winning a given project are important data points for making informed decisions and being selective about the work you go after.
- b. Your team will also make better decisions when it has the facts at hand. Knowing that a specific type of work costs \$15,000 to create an estimate and proposal for is important. Then you can ask your team in the project pursuit process, “Is this worth us spending \$15,000 on?”

3. Build the business case.

- a. A business case sets the foundation to get a customer to change the way it does something. As an industry, we need to become more proficient at building a business case for the changes we would like to see. The business case needs to answer the question, “What does this do for the customer?” Unless we can demonstrate the benefit of hiring our services, the conversation is not likely to progress toward our desired outcome.
- b. Conducting strategy sessions with your internal project teams is a great way to teach them to think this way and to be able to craft the answer for a specific customer.

4. Match customer and project to your approach.

- a. Not all customers are created equal. Which customers are willing to pay for the value provided? And which are simply asking for a lot of service yet unwilling to pay for it? Knowing the answers helps you make decisions.
- b. If the customer gives you a preferred status on a potential project, that is worth something. If the intent is to buy the project at the lowest possible price, that is OK too. But if the game is “How low will you go?” then you have to decide whether to work with that customer or not. If you do, then get as much cost out of chasing and winning the project as possible. Get creative with strategy on how you can approach the project to deliver quality and expectations while reducing costs.

5. Be willing to walk away.

- a. In my 30-plus years with FMI, I haven’t seen many contractors that would knowingly walk into a losing project. The more we know upfront regarding the customer’s expectations on risk and reward, the better we can be at making the right business decisions.
- b. At the end of the day, are you willing to walk away from a project or fire a client where you do not make a sufficient return for your invested effort?
- c. Certainly, do not walk away quickly; rather, do so in a thoughtful way. If you are unwilling to walk away, then the only option is to make the most out of the situation.

Meeting Technology's Challenges

Customer expectations are changing at an alarming rate. Embracing these changes on a project-by-project basis might not be the most efficient or effective way to respond. We need to get above the fray and think strategically about how we can leverage the situation to our advantage. Early questions to consider include:

- How can we capture the customer's attention and share the credible differences that we bring to the project, process or customer?
- How do we get engaged early enough to pre-position ourselves to win?
- Are our project approaches dynamic enough to meet the changing expectations of customers?
- How does this impact how we think about and target the right customers (and the right projects)?

Technology brings innovation. Innovation brings choice. Your strategy and approach need to build on the choices that customers are demanding today while balancing your company's own needs and vision. Asking the right questions, getting pre-positioned to win the work you want, and demonstrating your value to prospective customers will go a long way in ensuring that your company meets today's requirements and tackles future challenges.



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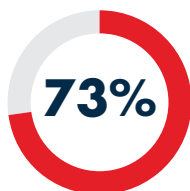
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FMI serves all sectors of the industry as a trusted advisor. More than six decades of context, connections and insights lead to transformational outcomes for our clients and the industry.

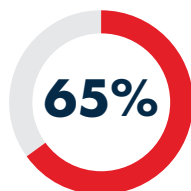
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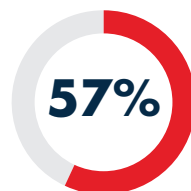
FMI Client Highlights



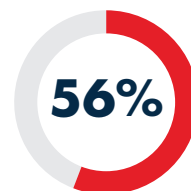
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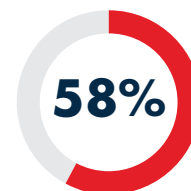
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