Marketing When You Don’t Need the Work

“Growing” Your A/E Firm in a Permanent Labor Shortage

All Ohio Convocation
May 9, 2018
Presented by: Brad Wilson, CMA
Very Brief Introduction

Undergrad in Economics – THE Ohio State University
MBA / JD – Capital University
Practical Education – 12 years in design firms
Applied Education – 15 years with PSMJ Resources

Specialize in:

- Strategic Planning
- Ownership Transition
- Mergers & Acquisitions
Firms are growing again, increasing the demand for talent

Employment in U.S. A/E Industry

Source: U.S. Department of Labor

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Pre-recession, we were the least profitable professional services industry

Source: Jan. 2008 Forbes.com
Despite recent improvement, our profitability still lags behind

* Includes law firms, accounting firms, facility management firms, advertising agencies, HR consulting firms, graphic design firms, PR firms, commercial photographers, etc. (also includes A/E firms). Excludes medical services providers. Source: Sageworks, a financial information company

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Are we attracting the best and brightest new grads?

Starting Salary for BS Graduates

<table>
<thead>
<tr>
<th>Salary Range</th>
<th>Civil</th>
<th>Mechanical</th>
<th>Electrical</th>
<th>Architect</th>
</tr>
</thead>
<tbody>
<tr>
<td>$40,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$45,000</td>
<td></td>
<td></td>
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<tr>
<td>$50,000</td>
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<tr>
<td>$55,000</td>
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<tr>
<td>$60,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$65,000</td>
<td></td>
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</tr>
</tbody>
</table>

Sources:
- 2014 Salary Survey, National Association of Colleges and Employers
- 2014 PSMJ Staff Salary Survey
Boomers are retiring

Percent of U.S. Population over Age 65

Source: U.S. Dept. of Labor
The long-term trend toward lower turnover may be coming to an end.
So your biggest challenge will be winning the war for talent

- Minimizing turnover
- Recruiting top talent
- NOT OUTSELLING YOUR CAPACITY
Hurdles to Sustainable Growth

- Hire Quality Staff
- Sell the Work
- Provide Facilities and Support
- Integrate the New People
- Develop New Work Processes
- Develop New Leaders
- Finance the Growth
Firms tend to plateau as they grow

- Need formal organizational structure (10-20 employees)
- Need dedicated “rainmakers” (300-500 employees)
- Need to separate CEO from COO (75-125 employees)
- Need professional corporate staff (50-75 employees)
- Need principal-level PMs (500-1,000 employees)
Does growth improve profitability?

Operating Profit Margin versus Staff Size
(Source: PSMJ A/E Financial Performance Survey)
The Elephant Trainer Model

1. It’s the trainer’s job to feed the elephant
   (it’s easy when the elephant is small)

2. What happens to the elephant if the trainer does a good job of feeding it?

3. What happens to the elephant’s appetite as it grows?
Have We Become Pavlov’s Dogs?

1. Clients issue RFPs (to multiple firms)
2. After the RFP, they award the contract (to the selected firm)
3. Repeat Steps 1 and 2 (over and over)
4. What happens when the principals receive RFPs (even if the contract is never awarded)?
Focus and Rigor

1. Thoroughness and rigor are the foundation of sales success.
2. There must be a rigorous process for every aspect of the BD program.

*If you chase two rabbits, you won’t catch either one.*
Business Development Focus

Focus Area

Sales
Specific Prospect & Project

Networking
Specific Prospect

Marketing
No Specific Prospect

Focus Universe of Prospects

Signed Contract

Time and Effort

Working toward the goal
What is a "Market"?

**Geographic Location**
- Chicago
- Georgia
- Latin America

**Client Type**
- Health Care
- Municipal
- Developers

**Practice Area**
- Civil Engineering
- Land Use Planning
- Architectural Design
Should you expand into new markets?

Absolutely!
1. More stable workload
2. Enables revenue to grow
3. Allows you to get out of mature markets

No Way!
1. Hurts profitability
2. Must beat out those who are now in that market
3. Diverts attention from the core business

Don’t try to expand in more than one "dimension" at a time!
Your expansion strategy depends which the “dimension” you select

<table>
<thead>
<tr>
<th>Expansion Strategies</th>
<th>Geographic Dimension</th>
<th>Practice Area Dimension</th>
<th>Client Type Dimension</th>
</tr>
</thead>
<tbody>
<tr>
<td>Use an existing project to set up a permanent presence</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Follow a client to new locations</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Send one of your rising stars to plant your flag in a new location</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sell new service to existing clients</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Hang out where those clients go</td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Learn the client's business</td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Hire a &quot;market leader&quot;</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Acquire firm with good reputation <em>(highest risk and reward)</em></td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

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The "Strategic Sweet Spot"

Can we become a market leader?

Can we make good money at it?

Do we have a passionate champion?
The Business Development Triangle

- **Marketing**
  - Find a prospective project
  - Identify potential project

- **Sales**
  - Make presentation
  - Submit proposal

- **Client Management**
  - Look for prospects
  - Develop a BD strategy
  - Broaden client relations
  - Obtain formal evaluations
  - Verify client satisfaction
  - Maintain regular contact
  - Identify "client champion"

- **Decision to propose**

- **Negotiate contract**
Most A/E firms have a formal go/no go process.

But how effective are they?

<table>
<thead>
<tr>
<th></th>
<th>Firms with Formal Go/No Go Process</th>
<th>Firms w/o Formal Go/No Go Process</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall proposal hit rate</td>
<td>48%</td>
<td>47%</td>
</tr>
<tr>
<td>Average 2015 profitability (% of net revenue)</td>
<td>13.3%</td>
<td>14.0%</td>
</tr>
<tr>
<td>Average revenue growth in past 3 years</td>
<td>19.1%</td>
<td>18.3%</td>
</tr>
</tbody>
</table>

Why aren’t these processes more effective?

Source: 2015 PSMJ survey of 100 A/E firms
Many of them have blind spots

Do you consider the following factors or take the following steps in deciding whether to submit a proposal ("go no-go" decision factors)?

<table>
<thead>
<tr>
<th>Factor</th>
<th>Yes (%)</th>
<th>No (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Have we identified what firms will be competing for the project?</td>
<td>74.6%</td>
<td>25.4%</td>
</tr>
<tr>
<td>Can we meet competition in terms of experience &amp; expertise?</td>
<td>93.2%</td>
<td>6.8%</td>
</tr>
<tr>
<td>Have we tracked this project before receiving RFP/RFQ?</td>
<td>82.8%</td>
<td>17.2%</td>
</tr>
<tr>
<td>Do we have a history of working for this client before?</td>
<td>100.0%</td>
<td>-</td>
</tr>
<tr>
<td>Can we commit required team members to the project?</td>
<td>91.5%</td>
<td>8.5%</td>
</tr>
<tr>
<td>We estimate if the client's fee budget is adequate for work required</td>
<td>89.8%</td>
<td>10.2%</td>
</tr>
<tr>
<td>Indication that project competition is open (not &quot;wired&quot;)</td>
<td>86.2%</td>
<td>13.8%</td>
</tr>
<tr>
<td>Check litigation history of the proposed client</td>
<td>74.1%</td>
<td>25.9%</td>
</tr>
<tr>
<td>Verify that project funds are committed/available</td>
<td>44.8%</td>
<td>55.2%</td>
</tr>
<tr>
<td>Check credit references of the proposed client</td>
<td>27.6%</td>
<td>72.4%</td>
</tr>
</tbody>
</table>
And they’re often used to rationalize decisions that had been made emotionally.
When should you make the proposal go/no go decision?

- You first see a list of a client’s upcoming projects
- You see publicity about upcoming projects
- A client first mentions a potential project to you
- Before you invest marketing effort in pursuing a project
- Before you respond to an RFQ or RFP
- Before you go to an interview
- Before you sign the contract
Using the "Quality Client" Concept

1. Develop Quality Client Criteria (Principals and CEO)

2. Determine Course of Action for Non-Quality Clients
   - Zero Marketing/Proposal
   - Change Engagement Conditions
   - Walk Away

3. Develop Marketing Plan for Current Quality Clients
   - Keep Them Happy and Loyal
   - Expand Your Services

4. Research Potential New Clients

5. Select and Prioritize New Target Clients
Most Clients Aren’t That Price-Sensitive

Percent of Revenues from Various Types of Selections

- Technical Qualifications, Selection on Price: 6%
- Competition Primarily on Price: 9%
- Sole-Source Selection: 34%
- Qualifications-Based Selection: 21%
- Contract Add-ons: 13%
- Combined Technical/Price Competition: 10%

Source: 2016 PSMJ A/E Fees & Pricing Survey
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Your Value Proposition

\[
\text{Niche} \quad \text{Commodity}
\]

Value = Benefits \ - \ [Direct Costs + Indirect Costs]

- Great Design
- Expert Advice
- Industry Knowledge

- Lack of Responsiveness
- Hassles
- Inconsistent Quality
- Change Orders

Your Fees
Success Strategies

Niche Markets

1. Stay two steps ahead of your competitors
2. Maintain high margins
3. Don’t skimp on overhead investments
4. Keep an eye on entrance barriers
5. Prepare for the day when your niche becomes a commodity

Commodity Markets

1. Be the low cost producer ($ per unit of product)
2. Mass production vs. custom design (Henry Ford)
3. Rigorously control project budgets
4. Subcontract a niche service
5. Blow them away with truly superior service
Strategies for Firms That Are Both Niche and Commodity

**Your Clients' Strategy**

1. Buy your niche services at commodity prices
2. Shop around for the best price on your commodity services

**Some Strategic Options**

1. Separate pricing structure for niche vs. commodity
2. Bundle niche with commodity
3. Price the same services differently to different clients
# Types of Niche Markets

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Tactics</th>
<th>Pitfalls</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Customer Focus</strong></td>
<td>• Narrow clientele</td>
<td>• Decline in clients’ business</td>
</tr>
<tr>
<td></td>
<td>• <strong>Really</strong> understand clients’ business</td>
<td>• Unhappy clients spread the word quickly</td>
</tr>
<tr>
<td></td>
<td>• Focus on repeat clients</td>
<td></td>
</tr>
<tr>
<td><strong>Technical Expertise</strong></td>
<td>• Recognized leader</td>
<td>• Hard to find staff</td>
</tr>
<tr>
<td></td>
<td>• State of the art</td>
<td>• Become a training ground for competitors</td>
</tr>
<tr>
<td></td>
<td>• High R&amp;D budget</td>
<td>• Must hang on to specialized staff during slow periods</td>
</tr>
<tr>
<td><strong>High Design</strong></td>
<td>• World-class reputation</td>
<td>• Reputation often tied to an individual</td>
</tr>
<tr>
<td></td>
<td>• Highly creative staff</td>
<td>• Employees tend to be high maintenance</td>
</tr>
<tr>
<td></td>
<td>• Frank Gehry</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Robert A.M. Stern</td>
<td></td>
</tr>
</tbody>
</table>

There is no such thing as a permanent niche!
The New Product Life Cycle
Phase I -- Rapid Growth

- Demand
- Supply
- Profitability

Life of New Product/Service

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The New Product Life Cycle
Phase II -- False Equilibrium

Life of New Product/Service

- Demand
- Supply
- Profitability
The New Product Life Cycle
Phase III -- Shake-out
The New Product Life Cycle
Phase IV -- Steady State
“Price on value. Manage on cost.”
Frank Stasiowski, FAIA
Basics of Lowest Credible Scope

**Key elements of LCS**
1. Address *all* issues recognized by the client
2. Identify the *lowest cost method* of solving the problem
3. Price *only* the activities required to solve the problem

**LCS should not be used to**
1. Omit any task you believe to be essential
2. Lowball the price in hopes of doing well on changes
3. Deceive the customer -- *ever, for any reason!*

**LCS should be used to**
1. Demonstrate your superior knowledge
2. Provide your client with the true *baseline* scope
3. Provide you with a marketing advantage

**Preparing an LCS proposal**
1. Define project objectives and outline the LCS
2. One person write the scope
3. Independent review of scope
4. Tell the client you have proposed the “baseline” or “most economical” scope
Pricing Strategy to Lose Profit

- Client’s Budget
- Market Price
- Your Cost & Minimum Profit

= LOST PROFIT
Pricing Strategy: What Now?

- Your Cost & Minimum Profit
- Market Price
- Client’s Budget
Implementing This Seminar

“Even the most grandiose strategies must eventually degenerate into work.”

- Peter Drucker
Focus and Rigor

Remember This Guy !!!

*Stop Chasing Every Rabbit That Shows Up On Your Radar.*
# Tracking BD Results

<table>
<thead>
<tr>
<th><strong>Steps</strong></th>
<th><strong>How to Do It</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Track “Bookings” separately from Revenues</td>
<td><strong>Bookings</strong> – taken as soon as the new project (or add-on) is entered into the accounting system</td>
</tr>
<tr>
<td></td>
<td><strong>Revenues</strong> – taken as the work is performed</td>
</tr>
<tr>
<td>2. Track “Net Fee Bookings”</td>
<td><strong>Net Fee Bookings</strong> = Bookings minus subconsultants and reimbursable expenses</td>
</tr>
<tr>
<td>3. Track “Gross Profit Sold”</td>
<td><strong>Gross Profit Sold</strong> = Net Fee Bookings minus direct labor</td>
</tr>
<tr>
<td>4. Track “BD Effectiveness”</td>
<td><strong>BD Effectiveness</strong> = GPS from Competitive Proposal Business Development Costs</td>
</tr>
</tbody>
</table>

**NOTES**

1. **Bookings**
   - Taken as soon as the new project (or add-on) is entered into the accounting system.
   - Represents the project or add-on before any work is performed.

2. **Net Fee Bookings**
   - Calculated as Bookings minus subconsultants and reimbursable expenses.
   - Reflects the net fee before the work is performed.

3. **Gross Profit Sold**
   - Calculated as Net Fee Bookings minus direct labor.
   - Indicates the gross profit after the work is performed.

4. **BD Effectiveness**
   - Calculated as GPS from Competitive Proposal Business Development Costs.
   - Represents the effectiveness of the business development efforts.

---

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Business Development Effectiveness

Decision to propose

Marketing → Sales → Negotiate contract

Client Management

Look for prospects
The Concept of “Gross Profit Sold”

GPS = Contract Value – Direct Costs

<table>
<thead>
<tr>
<th></th>
<th>Contract A</th>
<th>Contract B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contract Value</td>
<td>$10,000</td>
<td>$10,000</td>
</tr>
<tr>
<td>Other (Non-labor) Direct Costs</td>
<td>1,000</td>
<td>2,000</td>
</tr>
<tr>
<td>Net Revenue</td>
<td>9,000</td>
<td>8,000</td>
</tr>
<tr>
<td>Direct Labor</td>
<td>3,000</td>
<td>4,500</td>
</tr>
<tr>
<td>Gross Profit Sold*</td>
<td>$6,000</td>
<td>$3,500</td>
</tr>
</tbody>
</table>

* Gross profit sold is computed when the information is entered into the accounting system. Gross profit produced is computed as the work is performed.
Computing Business Development Effectiveness

Total BD costs:
- Marketing = $230,000
- Sales = $315,000
- Client management = $102,000
- Total = $647,000

Total Gross Profit Sold:
- Non-competitive = $3,400,000
- Competitive = $4,250,000
- Total = $7,650,000

BD Effectiveness = \( \frac{\text{Competitive GPS}}{\text{Sales Costs + Marketing Costs}} = \frac{4,250,000}{545,000} = 7.8 \)

Client Mgt. Effectiveness = \( \frac{\text{Non-Competitive GPS}}{\text{Client Management Costs}} = \frac{3,400,000}{102,000} = 33.3 \)
Questions???

For Further Information:

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857-255-3204

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Principals Bootcamp
Proposals Bootcamp
Pricing & Negotiation Workshop