

**Marketing in the Construction Industry; An Analysis of its  
Development, Current Status and Future Direction**

by

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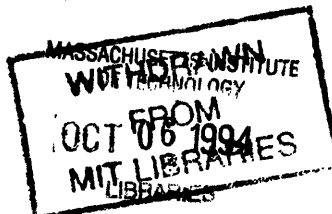
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**MARKETING IN THE CONSTRUCTION INDUSTRY: AN ANALYSIS  
OF ITS DEVELOPMENT, CURRENT STATUS AND FUTURE  
DIRECTION**

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**JAMES ALEXANDER MACONOCHIE**

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**ABSTRACT**

Over the last 10 years the combination of low demand, overcapacity and increasing customer sophistication has caused marketing to become one of the most critical business functions within a construction company. Marketing was always important, however, it is now a question of survival and not simply improving performance.

A study of marketing procedures at eight different construction companies was performed. Interviews of one or more senior members of the marketing departments were conducted at each company and led to the preparation of case studies of each. Despite differences between the organizations, several common characteristics were noticeable.

Although construction companies have recognized the need to become more market oriented, it is apparent that their knowledge, and subsequent utilization of that knowledge, is still far from comprehensive. Construction companies place too much emphasis on sales, while neglecting long term marketing strategies. The long term marketing strategies that are developed are not only often inappropriate, but are also implemented without the establishment of suitable control mechanisms and measures of performance. The result being that the strategies do not provide any substantial benefit and thus companies continue to concentrate on short term sales activities.

This thesis provides recommendations for construction companies, that if implemented, should significantly improve their performance and provide a greater level of insulation from their competitors.

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**CHAPTER 1**  
**WHAT MARKETING IS, AND WHY**  
**CONSTRUCTION COMPANIES MUST**  
**UNDERSTAND ITS APPLICATION**

**Introduction**

Marketing has been used extensively and for many years throughout the manufacturing industry as a tool for creating competitive advantage. Only more recently has marketing begun to figure anything like as prominently in the service industries <sup>1</sup>. This inertia to marketing's application has been observed particularly in the construction related segments, which have, only in the last 10 - 15 years really started their transition towards market orientation. The purpose of this thesis is three fold:

- 1) to provide some suggestions regarding how modern marketing theory might be applied, within the context of a construction company.
- 2) to provide a summary of current practices within the industry, drawing from the case studies of different companies located in the appendix.
- 3) to indicate areas in which considerable opportunities for enhancing a companies performance remain, i.e. areas of concentration for the future.

Each of these areas will be dealt with in turn, in chapters 2, 3 and 4 respectively.

The remainder of this chapter will focus on, the definition of marketing in

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<sup>1</sup> Reference: KOTLER, P. & BLOOM, P. (1984). Marketing Professional Services. Englewood Cliffs, NJ: Prentice -Hall. Chapter 1.

general, what it entails, and the reasons why it is essential for companies participating in the construction industry to understand it and how to use it. However, before I continue I would like to draw attention to three specific areas, that the reader may otherwise feel have been overlooked. The first of these concerns the specific types of services being offered currently by construction companies and any apparent trends in those services. The reason for this apparent oversight is that the focus of this thesis is the way in which the marketing process is performed by construction companies, and not the result of that process. The author believes that the services themselves is an area of research in its own right, and as such it cannot be adequately covered within a single thesis.

The second area, which the author recognizes as being highly important are the financial implications of the suggestions proposed throughout this thesis, but particularly in chapter 4. This area has not been overlooked, but, the author feels it is more appropriate to attempt to highlight, in a qualitative manner, the erosion of profit that can be avoided by the implementation of the suggestions. The supporting argument for this approach is that costs of implementing any change in policy or organizational structure will be highly dependent on the individual company, its size, its history and its current policy and position.

Finally, the author recognizes that there is a real need for the construction industry as a whole to find ways of promoting itself. This thesis however, will not explore this area and concentrates specifically on the use of marketing by individual companies involved in the construction business.

### **What is Marketing ?**

There are many different definitions of marketing, depending on the book or person consulted. Two representative examples are provided below:

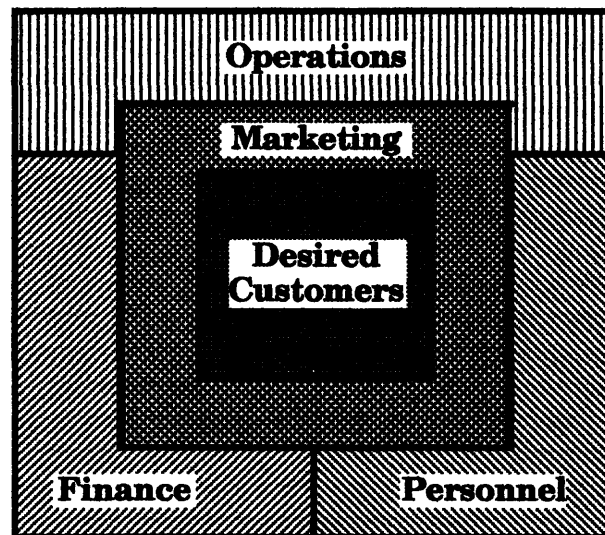
**Marketing is the management process responsible for identifying, anticipating and satisfying customer requirements profitably <sup>2</sup>.**

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<sup>2</sup> Reference: PEARCE, P. (1992). Construction Marketing a professional approach. London: Thomas Telford. p. 2.

**Marketing is a social and managerial process by which individuals and groups obtain what they need and want through creating, offering, and exchanging products of value with others <sup>3</sup>.**

Which ever definition is used, the underlying principle remains the same. This being that marketing should provide a means of channelling an organization's expertise to satisfy a specific customer need. Fig. 1.1 below shows marketing as being the link between the desired set of customers and the other functional areas of a business.



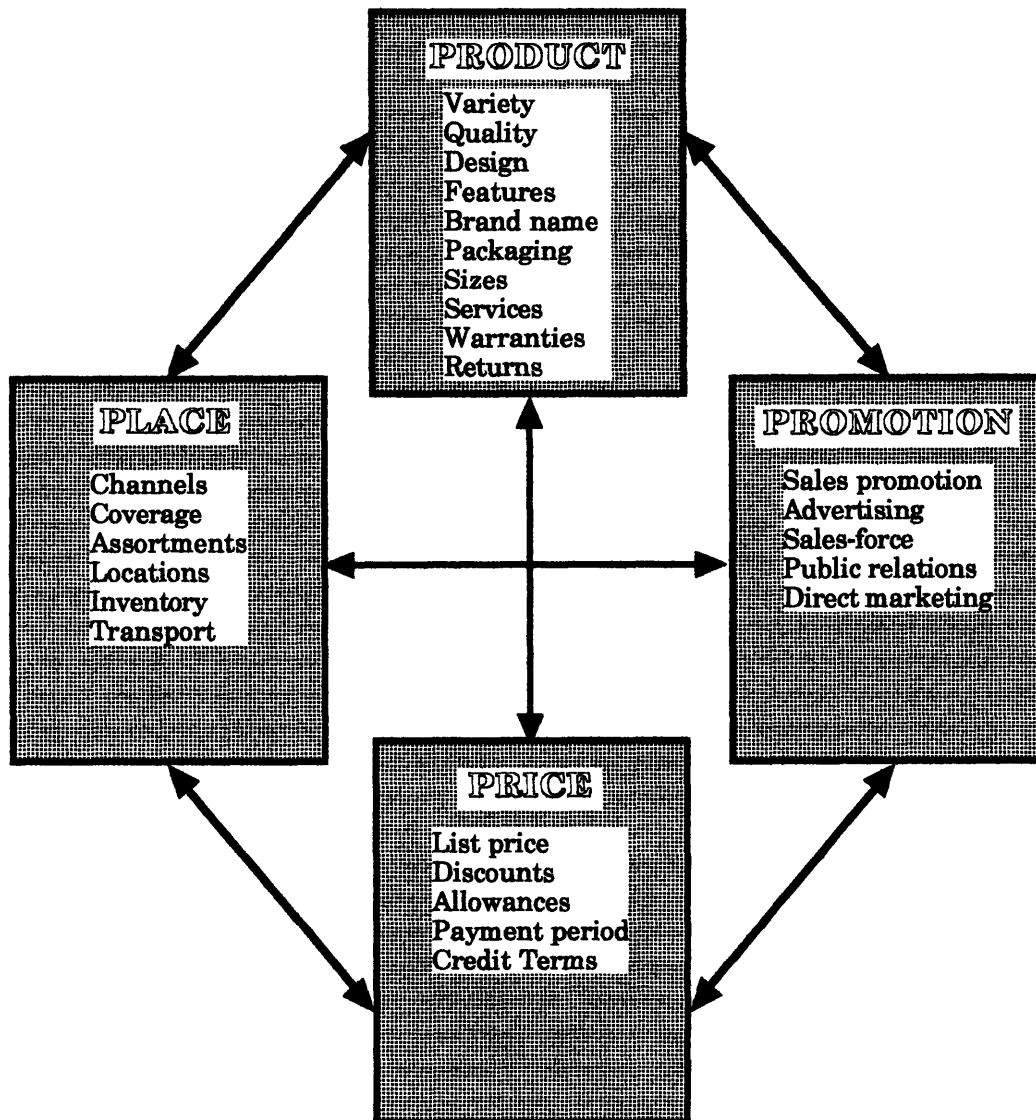
**Figure 1.1. An illustration of marketing acting as the link between the desired customers and the other areas of the business <sup>4</sup>.**

In order that a marketing department may successfully create this link, it must set a number of variables, that in combination, provide an attractive means of satisfying the target customers' need. This combination of variables, over which the marketing department has control is known as, the marketing mix and is often divided into four different areas, Product, Price, Promotion and

<sup>3</sup> Reference: KOTLER, P. (1991). Marketing Management: Analysis, Planning, Implementation and Control, seventh edition. Englewood Cliffs, NJ: Prentice Hall. p. 4.

<sup>4</sup> Figure 1.1 is an adaptation of an illustration found in Reference (3) p. 24.

Place. Each of these four sub-divisions, commonly referred to as the 4 "P"s<sup>5</sup>, represents a number decisions that the company must make concerning its product or service offering. Fig. 1.2 below illustrates the marketing mix and provides examples of the types of decisions that must be made in each of the four areas when considering a typical consumer product.



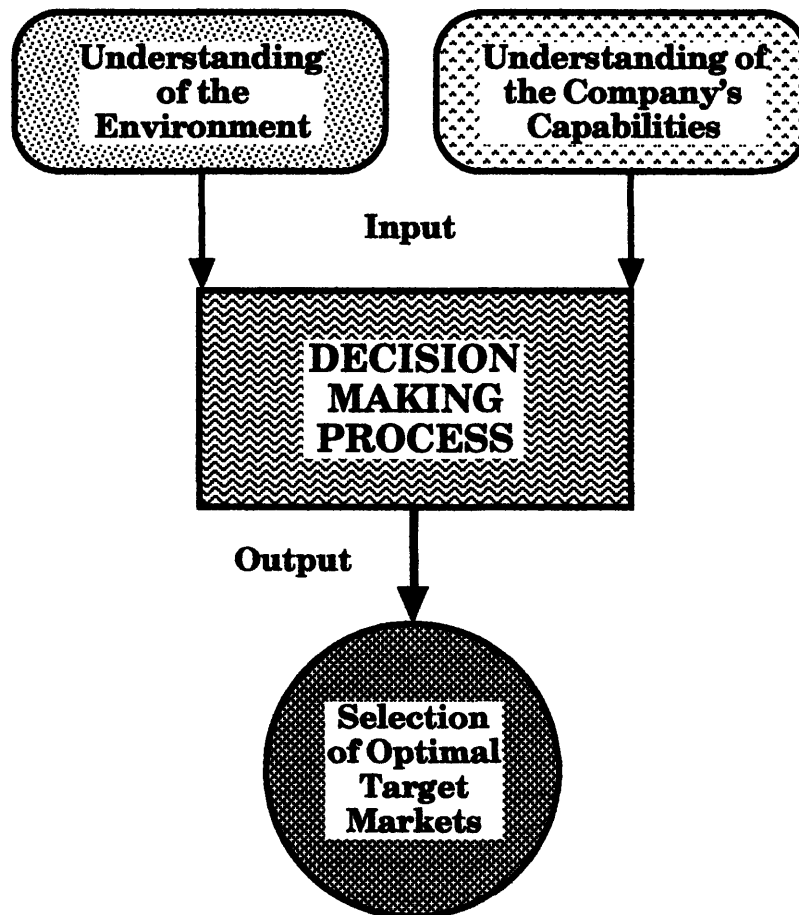
**Figure 1.2 . An illustration of the marketing mix with some characteristic examples of the decisions that need to be made.**

<sup>5</sup> Reference: MCCARTHY, E. Jerome. (1979). Essentials of Marketing. Homewood, ILL: Richard D. Irvin Inc. p. 32.



Fig. 1.2 also indicates that it is essential to consider each part of the mix as being related, or connected, to the other three. A prerequisite for the success of any marketing strategy is that each of the variables is consistent with both the target market, and all the other variables in the marketing mix.

The definitions, fig. 1.1 and fig. 1.2 have one thing in common, that is, they each imply that the target customers have already been defined. The other area of marketing that is as important, if not more so, is the selection of target groups of customers that offer the highest profit potential. Fig. 1.3 seen below illustrates this decision process.



**Figure 1.3. An illustration of the process of selecting optimal markets.**

The question that is raised by Fig. 1.3 is,

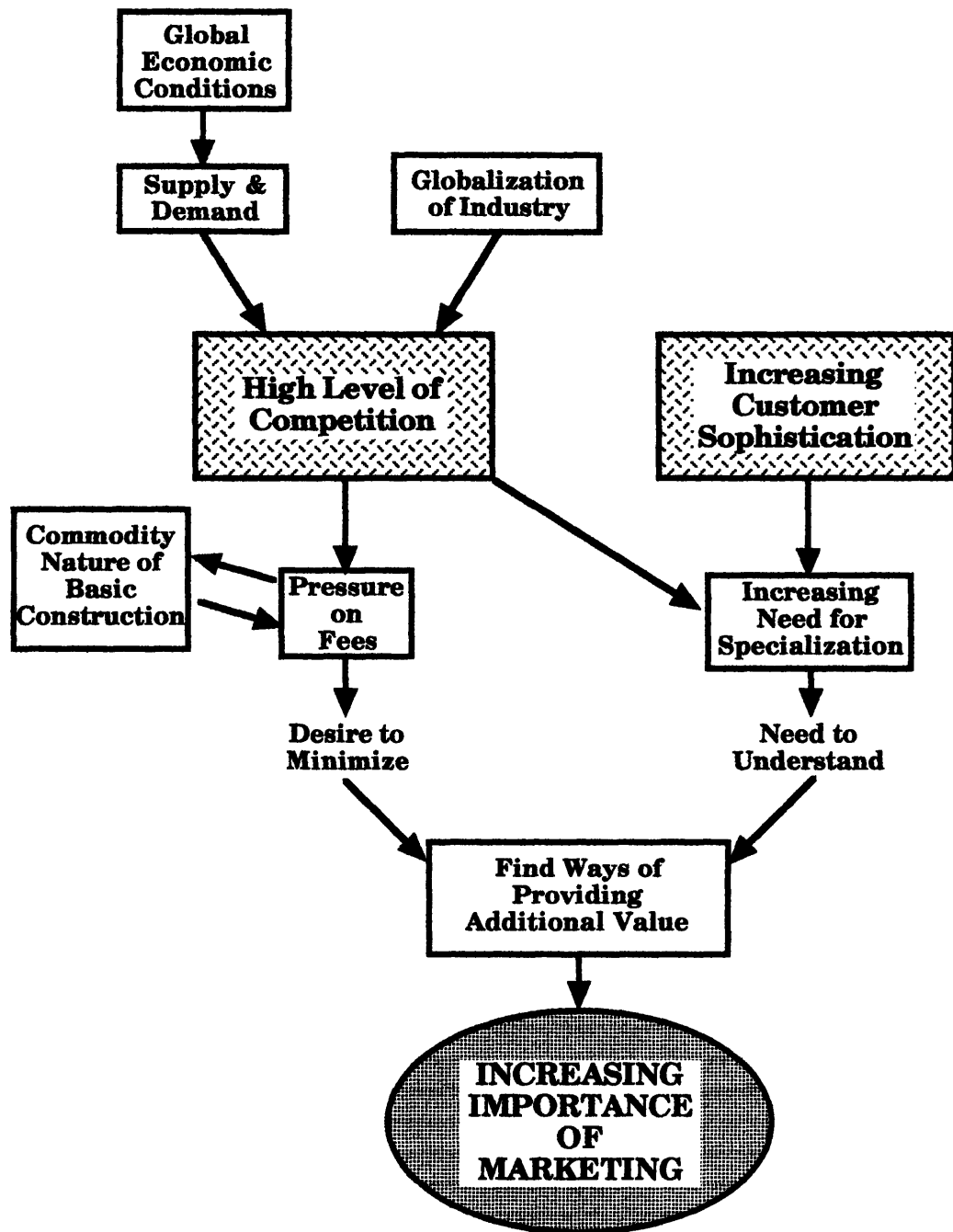
**What is the best way to make the decision ?**

One school of thought suggests that this is an area exclusively of business strategy, and that once the markets have been selected marketing strategy should be developed simply to serve the markets chosen. I would argue however, and will continue to do so throughout this thesis, that this arrangement does not necessarily result in optimal company performance.

I feel strongly that in many instances organizations, and not just those in the construction business, fail to perform as well as they might as a result of their limitation of the marketing department's responsibilities. By this I mean that too often business practice is such that business strategy defines the areas in which the organization wishes to compete with limited consultation of the marketing department. Hence the marketing department, which should have much of the information necessary for choosing the most appropriate markets, is largely left out of the decision. My argument is, that if the marketing department were permitted to be more involved with the choice of markets then company performance would be enhanced.

### **Why is Marketing Important in the Construction Industry**

Now the importance of marketing is not questioned by any of the participants in the construction industry, although there is considerable variation in companies depth of understanding. This statement could not have been made only a few years ago, it is due to a number of factors that the necessity of marketing in the construction industry has recently become very obvious. The reader should not misunderstand, marketing has always been important in the industry, simply that it is no longer a question of improving performance, but of survival. Current competitive pressures are such that if companies do not understand, and then leverage that understanding of marketing then they risk going out of business. Before going in depth into the specifics of marketing for a construction company in chapter 2, the causes for the increased importance of marketing will be discussed briefly.



**Figure 1.4 An illustration of some of the factors affecting the importance of marketing within construction.**

Fig. 1.4 above is a representation of the factors that are responsible for the increased importance of marketing within the construction industry. The two most fundamental reasons, each of which will be discussed in turn are:

- 1) The very high level of competition that exists
- 2) The increasing customer sophistication

### **The High Level of Competition**

The high level of competition, is the result of a number of environmental issues. One such issue, is the current economic situation around the world, many countries are only just beginning to show signs of recovery from the recession that began 3 - 5 years ago. Economic hardship has been felt in countries around the world including The U.S., Japan and much of Western Europe. The result of this was a considerable reduction in demand for construction services, as both public and private organizations reduced spending in this area. Indeed many companies, both public and private, instigated severe downsizing programs, closing uneconomic plants and laying off 1000's of employees. Unfortunately however, the trend for downsizing does not seem reach as far as construction companies themselves. It appears that the industry as a whole is loathed to reduce its capacity, as a result the situation is further compounded since companies desperately attempt to find work in order to maintain their work-forces.

Another change that is both a result of the reduction in demand but also further increases competition, is the apparent expansion of construction markets (indicated by the globalization of market). That is to say, economic conditions have caused a reduction in demand for construction and as a result companies are encouraged to look beyond the area in which they normally operate, particularly given their policies regarding maintaining the work-force. Hence, not only are there fewer projects available, but the number of competitors pursuing each increases. This happens on both a national level for general building construction and a global level for heavy construction / civil engineering, for example the construction of dams, and large petrochemical facilities is now very much a global market.

Falling demand will almost certainly increase competition, however, I would suggest that the peculiarities of the industry itself only further compound the problem. Fig. 1.4 shows that the effect of the increased competition is to place considerable pressure on the levels of fees attainable by those operating within the industry.

## **Increasing Customer Sophistication**

The second major reason for the increasing importance of marketing in the construction industry is the increasing sophistication of the customers. There is no doubt that as time goes on customers for construction services are becoming both more knowledgeable and demanding. Buyers for all different types of construction services are increasingly looking for specialists in their particular area, they are far less inclined to employ a generalist. The result of this is that construction companies must make strategic choices as to which areas of work they wish to pursue and then concentrate resources in those areas. Only by doing this do they obtain the experience and the expertise seen as essential by customers. This may be viewed by the reader as nothing new, and indeed in particular segments, such as petrochemicals it has been true for many years.

The point that I am making is that this is a trend that is both continuing in those markets for which it has been true for sometime, and spreading to other areas where there was previously little need for specialization. Customers are treating construction services in the same way that they have treated many aspects of their own businesses, that is to source them from whichever companies are perceived to be the best in their field <sup>6</sup>. In addition, in areas where specialization has been a requirement for some time, it appears as though the focus of the specialization is gradually narrowing. In the petrochemical industry for example, it is by no means unusual to have multiple contractors working on a single project, some of which could perform the whole project, however the customer feels that it receives higher quality by sourcing service from multiple vendors. The feasibility of utilizing multiple vendors is improved as a result of the extensive use of companies offering construction or program management capabilities.

The need for specialization is further reinforced by again looking at fig. 1.4, and specifically the relationship between the perception of construction services as a commodity and the pressure on fees. This relationship forms a self reinforcing loop and highlights the psychological tendency for people to consider low cost and low value to be synonymous <sup>7</sup>. Hence, companies must find some way of providing additional value to the customer, by specialization

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<sup>6</sup> Reference: PORTER, M. E. (1980) Competitive Strategy. New York: Free Press. Ch. 14.

<sup>7</sup> Reference: KOTLER, P. (1991). Marketing Management, Analysis, Planning, Implementation and Control, seventh edition. Englewood Cliffs, NJ: Prentice Hall. p. 489.

for example. Certain customers may feel that by employing the company with the greatest experience and expertise within a particular area they are receiving greater value.

However, I have already suggested specialization is increasingly becoming a prerequisite (or part of the commodity) for many customers, hence construction companies must find some other means of providing additional value. Whether it achieves this by developing close customers relationships, by offering special services such as financing, or by providing process guarantees or validation abilities, it must provide the customer something other than pure construction services. It should further understand that competition is such that even when it has identified a means of providing added value to the customer, it must continue to search for new ways of developing its services, since imitation occurs very rapidly, i.e. the first mover advantage is very short lived. The responsibility for finding and developing these ways of providing additional value are an essential component of the marketing departments task. A construction company must therefore ensure that it has people that understand the problem, and provides them with the resources and authority to respond to the challenge.

### **Summary**

Fig. 1.4 and the subsequent discussion should have made clear to the reader why it is essential for construction companies to develop greater marketing expertise. The construction industry is in a state of over-supply and many of the companies that continued to add capacity during the late 70's early 80's are now desperately trying to fill it. The result of this being that the market is immensely competitive and fee levels are depressed. While I would not suggest that marketing can create a need for construction services, it can significantly reduce the amount of competition that an organization must deal with and improve its profitability.

**CHAPTER 2**  
**SOME SUGGESTIONS CONCERNING HOW THE**  
**MARKETING TASK MIGHT BE APPROACHED**  
**BY A CONSTRUCTION COMPANY**

**Introduction**

This chapter will present some suggestions by the author of how a construction firm might approach the marketing process. It will be based on the definition of marketing presented in the first chapter and move, in a logical fashion through a number of critical stages up to and including the choice of specific marketing strategies, as illustrated by fig. 1.2. It is by no means intended to be an exhaustive account, but will provide illustrative examples of the types of tools that should be used when approaching each of the different steps. It should be highlighted that the marketing management of any organization must be responsible for identifying the different analytical tools and subsequently choosing the most appropriate for its situation. The chapter will also provide illustrative examples, where appropriate, in order to clarify the suggestions.

**The relationship between marketing and business strategies**

Business and marketing strategies are very similar in nature, differences lie essentially in the level of detail to which each is developed. The business strategy normally sets out, in broad terms the direction the company wishes to move, a mission statement and should include a number of explicit, but general performance goals<sup>8</sup>. This strategy is developed in accordance with the in-built organizational policies and behaviour patterns that are a result of the organization's history and culture.

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<sup>8</sup> General goals might include % growth of volume, overall profitability and return on equity.

The marketing strategy is generally an augmented and refined version of the business strategy. its purpose is to assess both the company's capabilities and the opportunities that exist within its marketplace, to develop more specific goals and the strategies by which they might be achieved. The sum of these specific goals should equal those established by the overall business strategy.

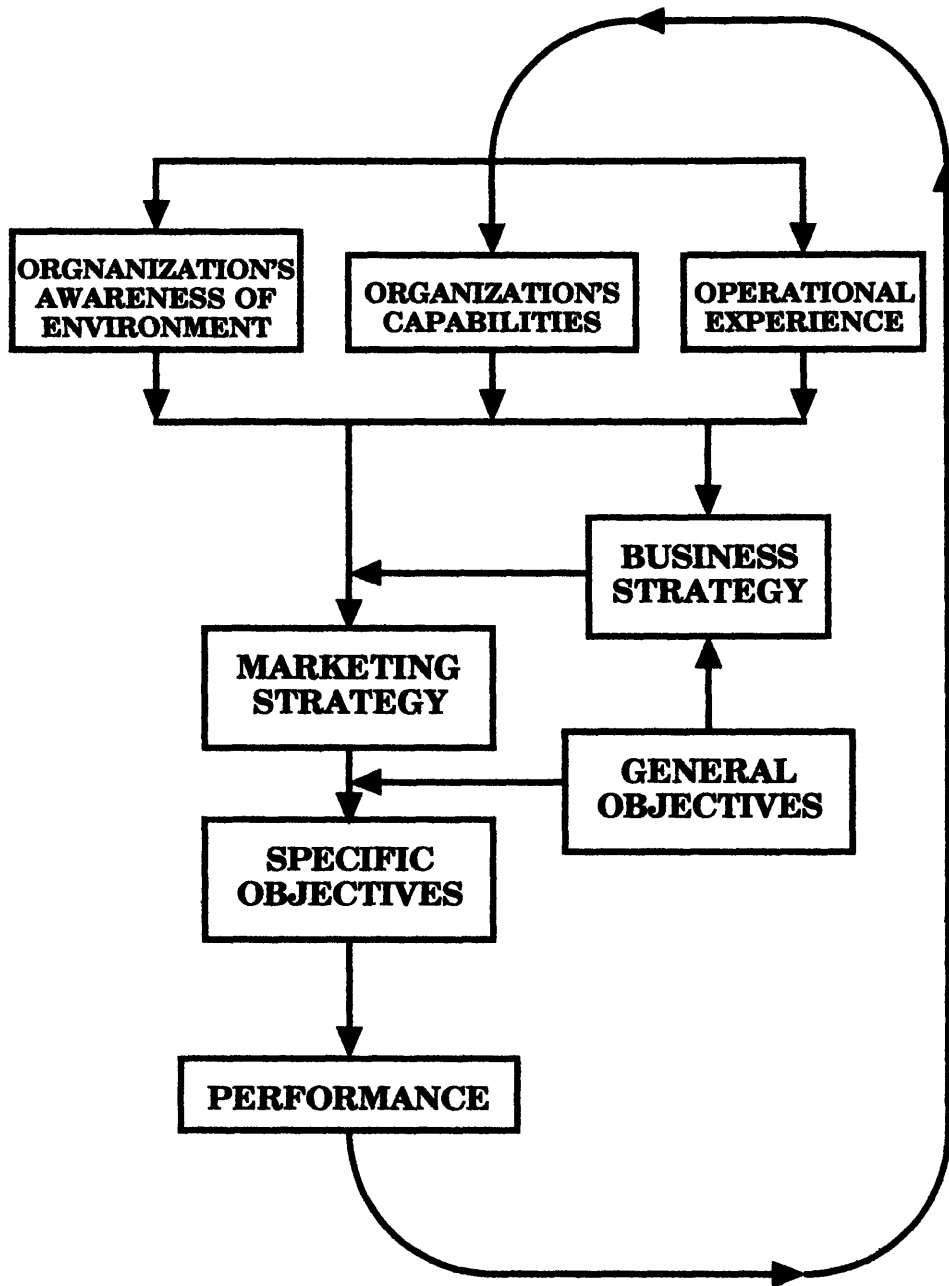
Although the contents of business and marketing strategies vary between organizations, understanding the inter-relationship between the two is critical to the organization's success. Neither of the strategies can be formulated in isolation from the other <sup>9</sup> , each provides essential input to the other and they both have very similar information requirements. Indeed, at one extreme, some companies feel that their marketing strategy and business strategy are one and the same. One explanation for this phenomena is that in smaller organizations general business strategic planning may include discussions concerning specific marketing strategies. This is, in many cases, likely to be a result of the limited number and size of the segments, and the availability of people and other resources required by the planning process.

Despite variations in definitions and approaches one principle is clear. That being, the planning of both business and marketing strategy must be considered to be an iterative process, resulting in continual refinement in order to compensate for differences between expected and actual environmental behaviour. Fig. 2.1 on the following page illustrates the relationship between the two strategies.

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<sup>9</sup> Reference: PEARCE, P. (1992). Construction Marketing a professional approach. London: Thomas Telford. p.11.





**Figure 2.1 The Iterative process of business and marketing strategy development .**

**Developing a marketing strategy**

An organization's marketing strategy should be developed as the result of the following three step process:

- 1) systematically analyzing both the environment in which it competes and its own capabilities.
- 2) deciding on which areas to concentrate by matching opportunities with capabilities and setting realistic goals that will enable the company to achieve the general objectives and maintain the organizational direction defined by the business strategy.
- 3) developing and implementing specific strategies and plans that will achieve the goals established in 2.

Each of these steps will now be dealt with in turn.

## **ANALYSIS**

### **Segmentation**

In order to get the most useful information concerning both the environment and its ability to serve it an organization should look at ways to segment its different customers. Segmentation is a marketing tool that lets a company group customers on the basis of some common characteristic, e.g. demographics or geographic location. The principle is to find a characteristic that allows a company to distinguish groups with different requirements and hence tailor its products or services accordingly <sup>10</sup>. I would propose that aggregating all construction markets and then performing the analysis outlined would be of very limited benefit. This is a result of the marked differences that exist within the market and the increasing sophistication of the customers that necessitates their consideration as belonging to a more narrowly defined group.

The usefulness of segmentation is somewhat limited in the construction industry since each project consists of a unique combination of participants, contract terms and design. Thus although the process allows an organization to make some generalizations or develop sets of “guidelines” for each segment,

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<sup>10</sup> Reference: URBAN, G.L. & STAR, S.H. (1991). Advanced Marketing Strategy. Englewood Cliffs, NJ: Prentice Hall. Ch. 7.

it is not sufficient by itself to provide the most appropriate responses. Given a specific customer and project combination segmentation should provide the construction organization with certain clues as to which areas are the most important. The company should then supplement this information with its understanding of the individual customer (particularly of the personal concerns of those people that make the decisions) and project in order to prepare the most effective response. It should be understood however that the extent to which a market requires division is very much a function of its customers' sophistication and their desire to be served by companies that specialise in their particular area. Care should be exercised to ensure that a market is only divided to the extent necessary, some companies may serve customers requiring only basic construction services, whose needs and appreciation of high degrees of specialization are limited.

<b>METHOD OF SEGMENTATION</b>	<b>BENEFIT</b>	<b>EXAMPLES OF COMPANIES USING THIS METHOD</b>
Geographic	Provides insight into the different service requirements of separate regions. Assists planning of resource allocations.	Turner Gilbane Morse Diesel Int.
Service Type	Helps an organization identify and anticipate trends and to assess in which areas the company should focus its attention.	Brown & Root Inc. Bechtel P, C & I Raytheon E & C
Customer Industry	Provides the company with the ability to determine the different requirements of each industry, hence devise the most appropriate responses. It is also a means of providing the customers with the sense of commitment to and specialization in their industries.	Morse Diesel Int. Macomber Kennedy & Rossi
Customer's Perceived Value of Construction Services	Allows the organization to assess the acceptable fee levels for different customers and industries. Provides the ability to determine which areas will provide the highest profitability.	

**Table 2.1 Examples of methods of segmentation and their benefits.**

Despite the limitations of segmentation in the development of responses, which is essentially a sales function, there are other benefits that can be gained from the process. Segmenting a market provides an excellent strategic planning tool, once the methods of segmentation have been selected an organization can then assess which segments offer the greatest opportunities and to which ones its strategic goals, capabilities and experience are most closely matched. It should be emphasised that it is always possible to segment a market in many different ways, the key is to choose those ways that provide the most useful means of distinguishing between customers. Indeed the most useful information is often gleaned by considering a combination of two or three different types of segmentation to form a two or three dimensional representation of an organization's customers. Examples of segmentation and the benefits that can be derived from them are illustrated in table 2.1 on the previous page.

Once the methods of segmentation have been chosen the next step is to look at each segment in turn and perform what amounts to a SWOT analysis<sup>11</sup> (where SWOT stands for Strengths, Weaknesses, Opportunities, Threats). This forces the organization to look both internally at the areas over which it has control (i.e. the strengths and weaknesses) and externally at those areas over which it has no control (i.e. the opportunities and threats).

### **External analysis**

The aim of this exercise is to assess the relative attractiveness of each segment with regard to their characteristics. The characteristics themselves may vary from segment to segment, although it is important to maintain some consistency for the purposes of comparison. A common method of approach to this process is to list the characteristics and then to rate the magnitude of associated threat or opportunity on a four point scale, from very small, through small and large to very large. Characteristics that might be considered opportunities could include:

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<sup>11</sup>Reference: URBAN, G.L. & STAR, S.H. (1991). Advanced Marketing Strategy. Englewood Cliffs, NJ: Prentice Hall. pp.12 - 19.

**Market size**  
**Market growth rate**  
**Value placed on construction services by customer**  
**Tendency for customers to stick with small number of providers**  
**Fee level**  
**Political, economic and societal trends**  
**Match organization's capabilities**  
**Unfulfilled customer needs**  
**Opportunity for niche markets**  
**Price elasticity of market**  
**Number of competitors**  
**Cost of entry**  
**Cost of exit**

It should be highlighted here that some of the characteristics, in certain instances might be considered both potential threats and potential opportunities. For example, a low cost of entry in a particular segment might indicate a sizable opportunity for an organization to attempt to establish itself more prominently. This, however, also represents a considerable threat, since, in a similar manner it will be inexpensive for other organizations to either enter or expand their position within the market, effectively increasing competition. Hence it is important to consider each of the opportunities and their potential as threats when comprising the characteristic threats associated with the segment. Characteristics that might be considered threats could include the following:

**Number of competitors**  
**Cost of entry**  
**Cost of exit**  
**Political, economic and societal trends**  
**Regulatory changes**  
**Tendency for customers to consider construction a commodity**  
**Chance of price war**  
**Lack of consistency with strategy**  
**Increasing segmentation**

**Increasing requirement for specialization**

**Strongly entrenched competition**

**Buyer bargaining power**

**Integrity of customers**

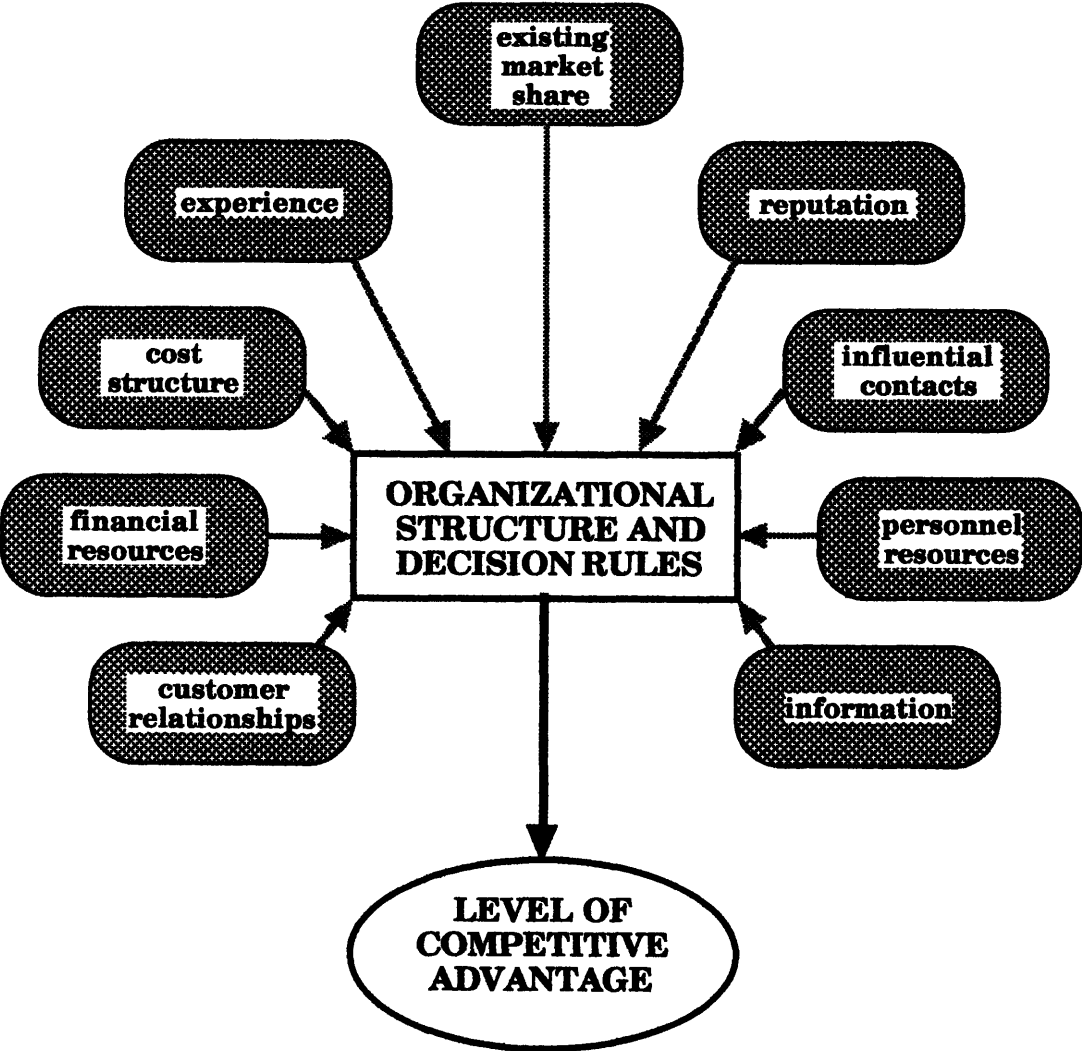
It is important to understand that a company must use as comprehensive a list as possible since exclusion of an important detail may give rise to misleading results. For example, if a market's size is large, this characteristic might be considered to represent a significant opportunity, however, if the organization's share is already large in relation to the competition, it may prove very difficult to increase it further.

### **Internal analysis**

The aim of this exercise is for the company to identify the critical organizational characteristics that facilitate success within each segment and to then compare its own performance, in each one against that of the strongest competitor, thus providing a measure of competitive advantage. Identifying those characteristics that are most critical in each segment should involve both personnel from each of the business areas and should be regularly compared with responses to surveys of customers. Although asking the customer for input is a fundamental marketing concept, it is also very easy to overlook or to believe that it is unnecessary. The Turner case in the appendix highlights this danger, it experienced an organizational opinion that it was obvious what its customers needed, valued and what they perceived Turner provided, however when it actually performed the surveys there were significant discrepancies.

In many instances the characteristics that are identified as being critical for success within a particular segment will be very similar if not identical. This does not indicate however, that an organization should assess itself across all segments simultaneously, since this will provide only aggregate results that I have already suggested should be avoided in the majority of instances. A company's experience and ability will vary between different segments and as such these variations must be understood and accounted for. Figure 2.2 on the following page illustrates the process and provides examples of some of the broad types of characteristics that the company should

consider, each of which is explained briefly following the diagram. The diagram shows that the sum of the performances in each of the critical characteristics does not directly provide the measure of competitive ability. Rather that this sum must be considered to be affected by the company's structure and policies.



**Figure 2.2 An illustration of the types of characteristics that must be considered in order that a company may determine the level of performance attainable.**

I would propose that the performance on the critical characteristics is filtered by the way in which the organization is structured and the manner in which it makes decision. Although these areas might be considered

characteristics in their own right I believe that they can fundamentally alter a company's ability to capitalise on the other identified characteristics. Depending on the segment the company's structure may be more or less well suited. For example, consider a national customer that requires similar facilities in a number of geographically dispersed locations and wishes to minimize the amount of time and money spent on getting the projects completed. A company that has a regional marketing focus will be much less well suited to this task than one that has a national account marketing focus. In the first case the customer might have to deal with each of the local offices whereas in the second case it could deal with one group responsible for all of its office locations.

Similarly the way in which decisions are made and the policies that exist can either facilitate or frustrate the company's ability to benefit from its other characteristics and capabilities.

Existing market share: this characteristic might be considered as simply a measure of an organization's success within a particular segment. However, it is also of vital importance to the company in order that it may set realistic goals, since, there will be in most cases a limit to the amount this can be altered in a given period.

Experience: Many customers, particularly those requiring more complex or technical construction services e.g. the pharmaceutical and chemical processing industries, perceive that a certain level of previous experience is a prerequisite for their construction projects. An organization must carefully assess its experience versus its competition as the ability to gain work in such a segment will be a function of the quantity of previous experience. This phenomenon is illustrated by the Bechtel case, in which, its customers desire to limit exposure to risk by employing only those contractors with whom they have had previous dealings and are thus certain of their ability.

Reputation: A company's reputation is the principle means that it has of attracting new customers and is a powerful tool for maintaining its favourable position in the eyes of customers with which it has already worked. It is the result of previous project performance and the level of satisfaction felt by its



customers. A company's reputation must be compared with those of its competitors in a given segment, in order that it may accurately assess its ability to obtain work. An example of the power of reputation is provided in the Morse Diesel case, where news of the success of construction management in New York city led to requests from around the U.S. A..

**Cost structure:** A company's ability to remain competitive is strongly tied to how its cost structure compares with that of its competitors. This is a result of the fact that price is always of great importance to the customer, and uncompetitive costs in any area will place pressure on a company's ability to make reasonable profits, unless, its service is perceived by customers as offering higher value. Care must be taken to ensure that any increased cost incurred as a result of providing "higher value" is either compensated for by an ability to charge higher prices or an increased success rate (indicating improved marketing efficiency).

**Influential contacts:** A key factor in obtaining work in a particular segment is often the relationships that a company has with organizations and institutions other than the direct customers. For example architects and financial institutions that are used by the customers can provide valuable sources of recommendations that can favourably influence the award of projects. An example of relationships of this nature can be found in the case study of Kennedy & Rossi, where its consultancy relationship with a bank provides significant influence over certain customers courting the same bank for project financing.

**Financial resources:** The bonding capacity that a construction organization has is a scarce resource that directly affects the quantity and type of work that it can take on in any given period. Financial resources also provide the company with an element of insulation from risk in the event that any of its projects go bad, either through unforeseen project related circumstances, as a result of customer bankruptcy or legal proceedings.

**Personnel resources:** A company's ability to obtain work in any area is limited by its personnel, both the number and their abilities. An organization must

track its particular set of employees, their abilities and previous experience in a given segment and compare itself with the competition in order that it can assess its relative position.

**Customer relationships:** The number and quality of relationships that an organization has, when compared with its competitors, directly affects its ability to secure work within a particular segment. Well managed relationships will furnish the organization with information concerning upcoming projects and a level of trust and understanding, on the part of the customer that will provide them with a greatly improved chance of being awarded projects.

**Information:** A company must compare its information resources with those of its competitors. Areas of specific concern should include:

- 1) segments' characteristics and trends
- 2) its customers and their concerns
- 3) competitive organizations' capabilities
- 4) its own project experience and the capabilities of its personnel

Not only is the information itself critical but the manner in which it is organized and its accessibility to those involved with the marketing process are vital to an organization's success within a segment <sup>12</sup>. This does not necessarily mean that every company needs a complex computerised data base, indeed, in smaller organizations well organized and maintained paper files will provide many of the benefits of a computer system. In the case of large, multi office organizations there is substantial advantage to be gained by having a central data base that can be accessed from each office location. It should be noted that the quality of an information system is a function of the frequency with which it is updated.

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<sup>12</sup> Reference: KOTLER, P. & BLOOM, P. (1984). Marketing Professional Services. Englewood Cliffs, NJ: Prentice -Hall. Ch. 7.

## **EVALUATION OF OPTIONS AND DEVELOPMENT OF SPECIFIC GOALS**

### **Relating opportunities and threats to level of competitive advantage**

The first element of the evaluation process is to identify those areas of correlation between significant opportunities and the competitive advantage. One way of performing this task is to develop a two dimensional grid as illustrated in fig. 2.3 on the following page. Each of the segments should now be placed within the region that corresponds to the results obtained from both the internal and external analysis. In order that this may be achieved it will be necessary for the company to develop some means of combining the values of each of the measures. In certain instances, when each characteristic is believed to have an equal effect, it may be satisfactory to take a straight average. In other situations however, a company may feel that it is necessary to use some form of weighted average, allowing for perceived differences in importance between different characteristics. This simple schematic provides a means of identifying those segments which are the more appealing for the company to pursue.

**Competitive Advantage**

	<b>Substantial Advantage</b>	<b>Parity</b>	<b>Substantial Disadvantage</b>
<b>High</b>			
<b>Medium</b>			
<b>Low</b>			

**Market Attractiveness**

**Figure 2.3 A grid combining market attractiveness and competitive advantage <sup>13</sup> .**

<sup>13</sup> Redrawn from: URBAN, G.L. & STAR, S.H. (1991). Advanced Marketing Strategy. Englewood Cliffs, NJ: Prentice Hall. p. 20.

Obviously an organization should concentrate efforts in those areas of the grid that are more darkly shaded, since here there is the best match between the company's capabilities and the opportunities that exist.

Other simple but effective methods of identifying in which segments the company should concentrate its efforts are the Boston Box and the General Electric Portfolio Approach <sup>14</sup>. Both of these methods provide, not only an indication of the instantaneous appeal of each of the segments, but also a valuable overview of the full range of services being provided and their relative positions. An organization must understand that it should carefully balance its different markets and not be blinded simply by current appeal and performance. A construction company is no different in this respect from any other type of organization. It must develop programs that insulate it from major changes within one or more of its markets that could threaten its overall performance. It should thus not only be concerned with obtaining the most from those segments that are performing the best (or primary markets) but, with identifying and developing segments that despite currently being smaller or less profitable, exhibit high potential (or secondary markets). By developing these secondary markets the company effectively reduces its exposure to the effects of adverse changes in the conditions of its primary markets or diversifies away some of its risk. This is an extensive subject in itself but for the purposes of this paper it is simply necessary to understand that it is important and should be considered when developing any marketing strategy.

### **Developing specific goals**

Having established the relative position and attractiveness of each of the company's segments the next stage is to translate this understanding into a number of realistic goals. The goals must be set so as they are both feasible but sufficiently challenging, especially for the secondary markets that the company has identified as being suitable future substitutes for the current primary markets. Examples of different types of goals that can be used are as follows:

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<sup>14</sup> Reference: KOTLER, P. (1991). Marketing Management: Analysis, Planning, Implementation and Control, seventh edition. Englewood Cliffs, NJ: Prentice Hall. pp.39-44.

- 1) **Market share**
- 2) **Profitability**
- 3) **Volume of projects identified**
- 4) **Volume of responses prepared**
- 5) **Win rate**
- 6) **Number of new customers**

An important point to note is that the goals established are only meaningful if there is not only a commitment to their achievement, but the ability to allocate the responsibility for their achievement. That is to say there is no good reason why certain individuals' salaries should not be in some way tied to the achievement of the goals. This form of incentive is used successfully in many organizations as a means by which to improve performance.

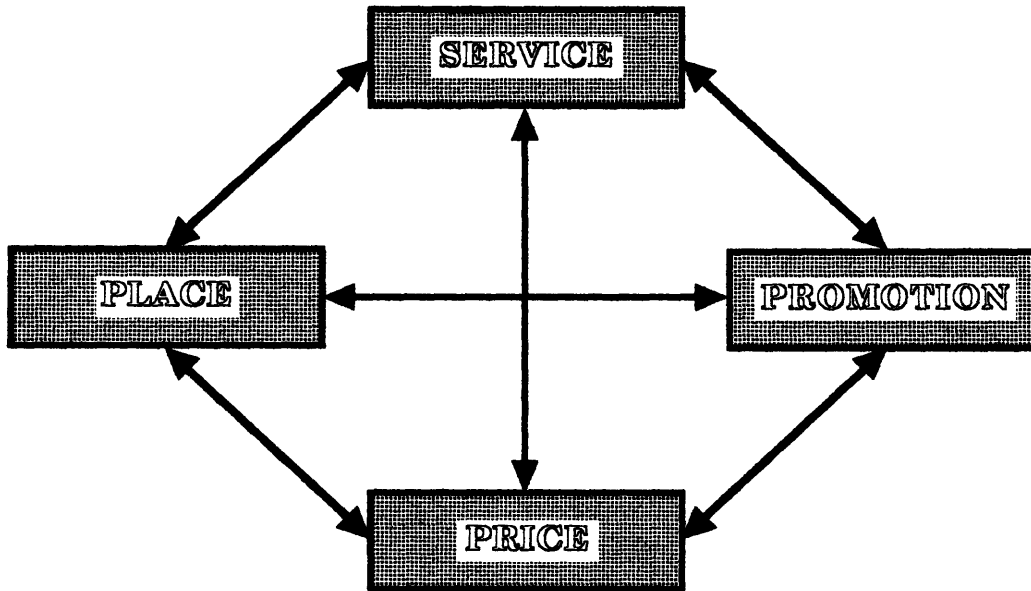
Developing suitable goals is also a critical component of the control mechanisms that a company must establish in order that the marketing process be successful. Note: the issue of control will be discussed more fully at the end of this chapter.

## **DEVELOPING STRATEGIES THAT WILL FACILITATE THE ACHIEVEMENT OF THE SPECIFIC GOALS**

### **The components of a marketing strategy in the construction industry**

Marketing strategies are often considered to consist of four interrelated components, or the four "P"s, as was illustrated by figure 1.1 in the previous chapter. The construction industry can utilise the same overall methodology with one simple alteration, that is that the product "P" should be replaced by service, since companies engaged in the construction business supply a service, see fig. 2.4. That service can be considered to be transferring their customers' facilities plans into physical realities. The key to a successful

strategy is to develop each of the four “P”s in such a manner that they are both consistent with each other and all the information that the analysis and evaluation processes have derived. The following section will attempt to describe each component of a marketing strategy in turn and provide an indication as to those areas that should be given consideration in developing strategies for each segment.



**Figure 2.4 an illustration of the major components of a marketing strategy and their inter-relationship.**

### **Service**

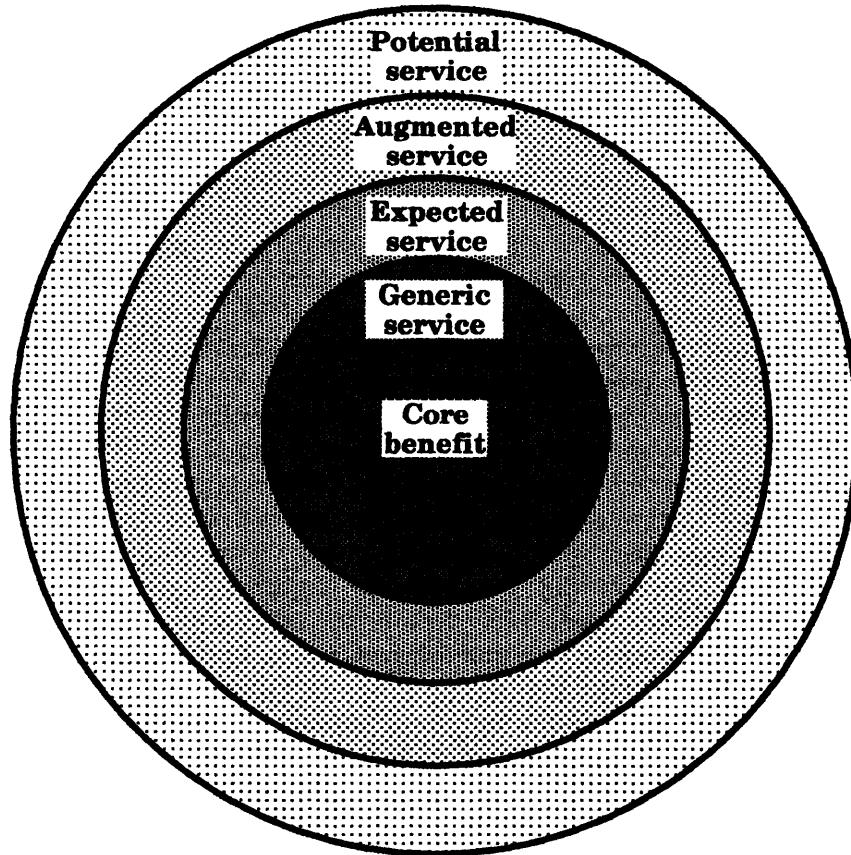
For each segment the organization must identify what the customers real needs are and what it is they value the most, then devise a combination of services that at the very least satisfy those requirements and preferably exceed the expectations. The benefits of exceeding customer expectations are that the organization will subsequently have an increased probability of receiving additional work from the customer in question and stand to benefit from positive word of mouth and referrals.

Fig. 2.5, on the following page is an adaptation of an illustration of the different levels of a product <sup>15</sup>, but it is equally applicable to construction services. The principle idea is that it is possible to consider construction

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<sup>15</sup> Reference: LEVITT, T. (1980). Marketing success through differentiation - of anything. Harvard Business Review. January - February, pp. 83 - 91.

services to be made up from a number of different levels, each of which is addressed in turn below:



**Figure 2.5 An illustration of the different regions of the service component of a marketing strategy**

Core benefit: This represents the fundamental benefit provided by the service, in the case of construction services this could be considered to be “the creation or refurbishment of useful space”.

Generic service: This is simply a basic version of the service, for the purposes of construction I would propose that it is at this level that the contract type be considered. That is to say, whether the contract is of a general, construction management, program management or construction consulting nature. In addition this level might include an indication as to the basic type of space to be provided or refurbished, for example, “manufacturing space” or “sports /

leisure space”.

**Expected service:** This represents the set of services that the customer takes for granted, or those things that all companies, no matter what the final scope of the project, should provide. For example under a general contract, this might include the development of a schedule, an estimate of the cost and compliance with both the design specifications and regulatory standards.

**Augmented service:** This level represents the ways in which companies attempt to differentiate themselves from each other and provide enhanced customer value. It is at this level that most of the competition occurs. Examples of augmented service could include utilization of computerised scheduling, estimating and integrated CAD packages or preconstruction services, feasibility studies and value engineering. They might also include guarantees, maintenance services, financing, startup and facilities management. An illustration of this type of activity in the construction industry is the advent of the BOOT (Build, Own, Operate, Transfer and similar contract types.

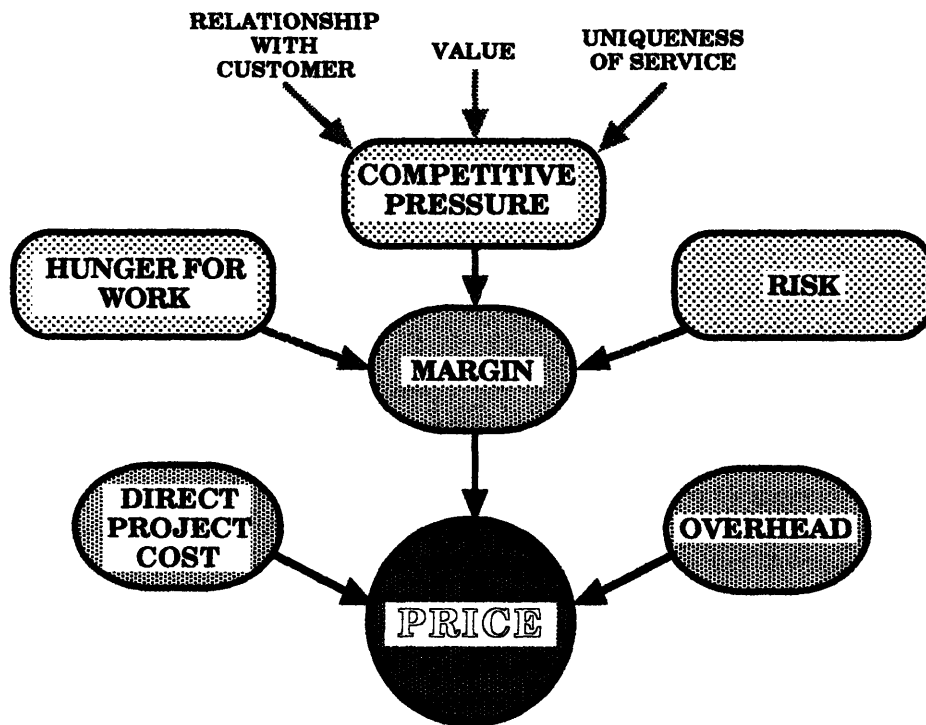
**Potential Service:** This level can simply be thought of as the level within which all possible service augmentations exist, and I would propose that as time progresses this boundary continues to expand. It is at this level that an organization must find ways of adding value for its customers, hence maintaining its differentiation. The word maintain here is key since any organization participating in the construction industry should be aware that any service augmentation can only be a differentiable factor for a finite period of time, since it will, if successful be copied very quickly. I would propose that it is at this level that truly market driven companies will find success. By understanding its customers needs both currently and the direction in which they are moving, a company will be able to continually bring to the market place new and innovative contract types and combinations (or bundles) of services that provide its customers with an unmatched level of value. This in turn will enable them to maintain a degree of differentiation that should allow them to charge higher prices, leading to improved profitability and hence greater resources, some of which can be used to continue developing its



services.

### Price

Fig. 2.6 below presents a basic model of the different elements that must be considered in developing both the pricing strategy for each segment and for specific projects. It shows price being made up of three main components, those being, the cost of work (including man hours and materials), an allocation of the company overhead and a margin for profit. The margin is the area that is often of most interest and it is similarly the most complicated. The construction industry is currently enduring a period in which margins or fees are at very depressed levels. Indeed, in many instances the successful company wins the project only at the expense of its profit. Additionally, in many instances the profits that are being made are the result of taking on ever increasing levels of risk. It is essential for a company to understand all the factors that affect the level of profit obtainable, and to adjust its price accordingly.



**Figure 2.6 An illustration of the elements that should be considered in developing the price component of the strategy.**

Although, as I have already mentioned the margin is normally the area which receives the most attention, it is essential that a construction firm does not overlook the other components of price. Since, in the majority of instances I would suggest that final price, and not the fee or profit (in certain circumstances the customer will only know the final price and not the fee) is of critical importance, there may be much to be gained by addressing the other two areas. A company should assess its ability to improve its operational efficiency, both on site and at its offices reducing its costs where possible, in order to relieve some of the pressure from its fee or margin.

Another means by which innovative construction companies can improve the level of profit which they receive is to offer, and have its customers accept, some form of performance bonus. In this case the company has the opportunity to improve its profitability (up to a certain predetermined limit) depending on its achieving certain performance objectives.

### **Promotion**

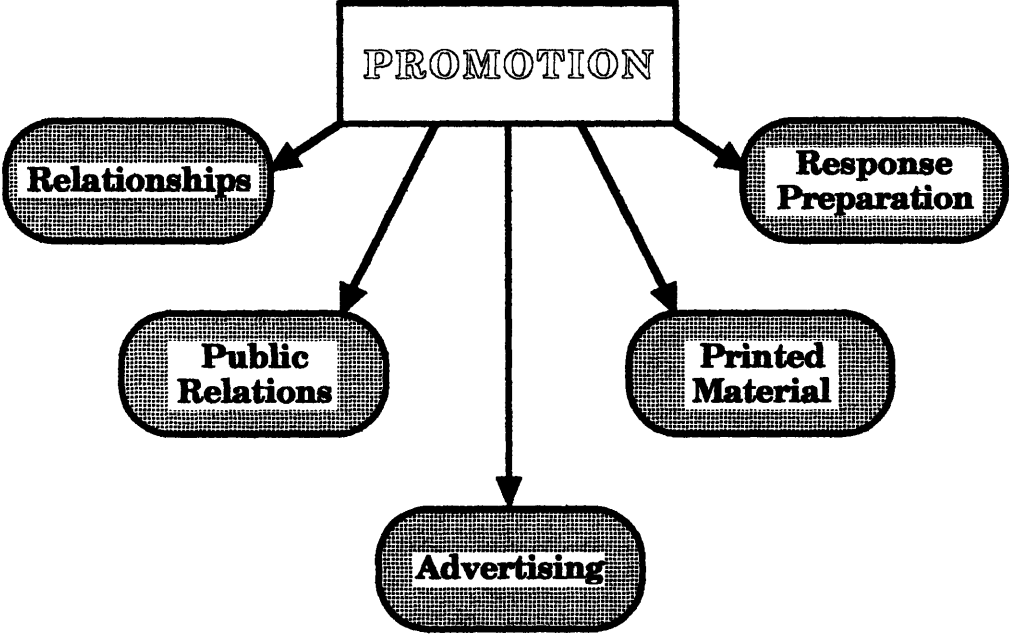
Promotion is the means by which an organization must remain in the forefront of its desired customers minds. In today's market it is not sufficient to simply write well prepared responses to RFP's, although this is still an essential component. A company must utilize all means available to become involved with projects at the earliest possible opportunity, it can then leverage the resulting superior understanding of the customer's requirements in order that it may receive the project. A simple illustration of the main components of promotion is shown on the following page in fig. 2.7. Each of these components will now be addressed in the context of how a construction firm might consider them.

**Relationships:** These are of crucial importance to a construction company and can be considered to comprise of two principle types:

- 1) Customer relationships
- 2) Influential non- customer relationships

The first of which concerns the development and maintenance of quality

relationships with the customers that an organization wishes to serve in a particular segment. These relationships should provide the company with an excellent source of information, both in relation to customer concerns about projects currently under tender and also about possible upcoming opportunities. Ideally the relationships exist at a number of different levels, as this will provide the best possible information and the greatest amount of leverage when it comes to the selection of the contractor. Another benefit of good customer relationships is an increased level of trust between customer and contractor. In many cases this leads to reduced competition when projects are being bid, since the customer has a significant level of confidence in the contractor's ability and honesty, therefore it is not necessary to ask for as many competing bids <sup>16</sup>.



**Figure 2.7 The main components of promotion.**

The second group of relationships that can be very beneficial are those with either individuals or organizations that possess a certain degree of influence over the choice of contractor within certain customer groups. As

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<sup>16</sup>It should be highlighted however that in many instances purchasing rules exist within customer organizations that force them to solicit a minimum number of bids.

examples architects or members of governing bodies or company boards may provide valuable sources of recommendation. This type of networking is in no way unethical, it is simply an effective tool that can significantly improve a company's chance of being considered for, or awarded, certain contracts.

**Response preparation:** This remains the principle vehicle of promotion available to a construction company, it provides the company with the opportunity to present its ability and the way in which it can assist the customer in realizing its facilities requirements. The responses must draw upon all the available information about general concerns within a segment and those that are unique to the individual customer group, and present the company's approach and the unique value that it will provide. In many instances both written documents and oral presentations are required and it is essential that these are consistent and both address those issues that are of importance to the customer. It should be highlighted that it will often be beneficial to address any weaknesses that may be perceived by the customer and provide supporting evidence that illustrates how they can be overcome or circumvented rather than simply avoiding them.

**Public relations:** This activity provides a company with a means of presenting itself as a professional organization that is both environmentally and socially responsible. It is essentially a customer education and reputation building exercise that should involve the organization in conferences and exhibitions of both the construction industry and of the various segments that it wishes to serve. It allows a company to pick up information concerning any trends that are developing within the industry and disseminate information about its own service offerings and capabilities to a receptive audience. Public relations activities can also include the sponsorship of charitable events and causes and can be used to develop relationships with potentially influential groups or individuals, which was sighted previously as being highly valuable. Another way in which a company can promote its image is by maintaining a community relations group, specifically intended to answer any questions or concerns that local people may have about an ongoing project in their neighbourhood.

**Printed material:** This area of promotional activity is responsible for developing marketing support material that can be used to present the company's capabilities and experience in relation to particular types of work. It can be sent as part of a direct mail campaign to selected customers, provided as support material at presentations or sent as a follow up to an introductory meeting. It often includes company, and / or, segment specific brochures illustrating previous showcase projects, unique capabilities that the company possesses and a brief history of the organization. Other items that can be of use include magazine reprints, and company newsletters or bulletins. The former concerning the completion of specific projects or the receipt of an award for quality or design excellence and latter can be distributed among both the employees and customers to keep them up to date with company activity.

**Advertising:** Although the type of advertising that a construction company might benefit from is somewhat limited in comparison to that which is used for various consumer products, an organization must give careful thought to what is practical and feasible. Examples of the sort of advertising that a company can and should perform include ensuring that at every sight at which they are working there is a sign indicating the company's name and a telephone number at which they can be reached. Additionally the organization might purchase all of its vehicles in the same color and have a company name, logo and telephone number clearly painted on each door.

There are also a number of activities that can provide free forms of advertising, for example the company's inclusion in an industry journal with reference to its completion of a new facility, or a write up in a newspaper or trade journal of a recent partnership arrangement or acquisition of another organization, extending its service capability or geographic coverage. Another source of advertising, although not without cost, is the company's sponsorship of a charitable organization or event that receives media attention.

Advertising is similar to public relations in that both appear to have limited application in the construction industry. They do however, maintain a company's exposure within the market place and are instrumental in developing and maintaining the organization's reputation.

## **Place**

The final part of any marketing strategy is the means by which the service is distributed. Although in the construction industry, options such as value added resellers (VARs) or distributors, which are common among manufacturing organizations, are not applicable, the way in which the company is structured, is. There are three major types of service structure, they are the Macro Pyramid, the Umbrella and the Conglomerate<sup>17</sup>. The differences lie in the degree of autonomy that is provided to each of the offices. In the first case, that of the Macro Pyramid, all marketing planning and strategy development is done by a corporate head office, the other regional offices are responsible solely for implementing the chosen strategy.

In the second case, the umbrella structure, the head office will make decisions concerning overall direction and set general objectives. The regional offices, in this case, are responsible for developing and implementing segment specific strategies that will achieve the general objectives while remaining consistent with the corporate mission.

The last structure, the conglomerate, consists of a group of offices sharing only a name and common financial resources, each office is responsible for choosing its own mission, objectives and developing and implementing specific marketing strategies.

The benefit of allowing geographically dispersed offices to have more say in the development of their own strategies is that the people actually in a specific area are likely to have the best understanding of the local market. The down side however, is that it can lead to the development of inconsistency within an organization and to a general loss of control by the head office. If we recall that a company's reputation is one of the factors that determines its ability to succeed within a given segment (see fig. 2.2) then it is essential that the company is perceived to behave and perform consistently in order that its reputation is maintained. Providing greater autonomy to an office can increase the chance for the development of this type of performance discrepancy.

Another area that must be carefully considered by a construction firm is the suitability of different types of structure to different segments. In many instances a structure that is highly appropriate in certain segments may be

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<sup>17</sup> Reference: KOTLER, P. & BLOOM, P. (1984). Marketing Professional Services. Englewood Cliffs, NJ: Prentice -Hall. pp. 192 - 193.

far from ideal in others. In this case a company should consider setting up an additional marketing structure that is better suited to the other segments, and allow it to operate in parallel with the other. Gilbane Building company provides an illustration of how two structures can be superimposed since each office has considerable responsibility for developing its marketing strategies for all but one of the chosen segments. The exception being the process segment, for which a specialist group exists and is responsible for marketing in this area across all of the organization's offices. The extent to which the organization can simultaneously operate more than one marketing structure must be given careful consideration, since it could lead to confusion and possible loss of control.

### **Control**

While the previous discussion covers how a construction firm might approach the marketing process, there is one other area that is of vital importance if an organization is to succeed, that is control. Although it has been mentioned in several places previously, the concept is sufficiently important to warrant repetition. The successful completion of all the stages outlined in this chapter will put the company in a good position with regard to its marketing. There is however, a considerable gap between developing the plan and its successful implementation. This gap must be bridged by the development and application of a number of suitable control mechanisms, especially if a company has limited experience and confidence in the area which is true in the majority of cases. The types of mechanisms that a company might employ include:

- 1) Establishment and adherence to a marketing budget
- 2) Strategy performance reviews
- 3) Opportunity reviews
- 4) Use of payment incentive schemes for responsible individuals
- 5) Clear rules detailing who, and under what circumstances, the

## **strategies may be modified**

**The basic principle is to provide a form of check and balance, since it may be necessary to modify strategies or goals in the light of more up to date information. The way in which these modifications can be made must be explicitly understood, since one of the major threats to the success of a strategy is insufficient control over its modification. It should be clearly understood who has the authority to make modifications and for what reasons, only in this way will any strategy be given a fair chance. It should not be possible for just anyone involved with marketing to unilaterally make alterations to the strategy or goals since this then undermines the developed strategy and makes it impossible to measure its success.**



**CHAPTER 3**  
**THE CURRENT STATE OF MARKETING WITHIN**  
**THE CONSTRUCTION INDUSTRY**

**Introduction**

The purpose of this chapter is to present a summary of how the process of marketing is being performed by construction companies today. As was explained in chapter 1 it will not provide details of the services themselves, but concentrates on how a company in the construction industry firstly derives, and then subsequently implements and controls marketing strategies. The information is the result of a series of interviews with one or more senior executives involved with the marketing process at eight different companies. These interviews covered the areas indicated by the list of sample questions that can be seen in appendix A ,and resulted in the preparation of the marketing case studies that are located in appendix B.

The information in the following chapter is presented in a similar manner to the case studies themselves, although some sections have been added and others have been further subdivided to improve the readability. The layout is intended to facilitate cross referencing of the individual cases if desired, since although the chapter is self contained, the cases will provide greater context and will certainly present additional examples, excluded here only for the sake of length. The chapter will highlight major differences in approach and offer suggestions, where appropriate as to the reasons for these differences.

**A note concerning the selection of the companies interviewed**

The selection of the companies was done in such a manner so as to provide as broad a cross section of different sizes and types of organization. Table 3.1 on the following page lists the companies and provides some basic information concerning their size, location and major lines of business.

<b>COMPANY</b>	<b>Established Since</b>	<b>Annual Volume (millions of \$'s)</b>	<b>No. of Employees (No. of Offices)</b>	<b>Major Segments</b>	<b>Major Services</b>
<b>Bechtel</b>	1898	9,000	21,000 (47)	civil engineering, petroleum, chemical and industrial	design, procurement, engineering, construction & financing
<b>Brown &amp; Root Inc.</b>	1919	3,500	40,000 (20 +)	civil engineering, petroleum, chemical, environmental & industrial	engineering, procurement, construction, management & maintenance
<b>Gilbane Building Co.</b>	1873	1,200	1,200 (10)	corporate, public sector, healthcare & institutional / educational	construction mgt, program mgt & general contracting
<b>Kennedy &amp; Rossi</b>	1981	45	100 (1)	pharmaceutical / biotech, independent school & healthcare	construction mgt, program mgt & general contracting
<b>Macomber Building Co.</b>	1904	100	100 (2)	medical, industrial & institutional	preconstruction planning, construction mgt & construction
<b>Morse Diesel Int.</b>	1936	1,000	400 (13)	commercial, industrial, transportation, sports stadiums, correctional & entertainment	construction mgt / consulting, general contracting & design / build
<b>Raytheon Engineers &amp; Constructors</b>	1968	3,000	16,000 (17)	civil engineering, petroleum, chemical, industrial & environmental	design, procurement, engineering, construction & financing
<b>Turner Construction Co.</b>	1902	2,600	2,500 (45)	commercial, healthcare, amusement, hotel, public & manufacturing	construction mgt, program mgt & general contracting

**Table 3.1 The companies from which the information presented was obtained.**

## **THE IMPORTANCE OF MARKETING AT CONSTRUCTION COMPANIES**

Without exception each of the companies interviewed perceive that the ability to market effectively is vital if construction organization are to remain competitive and successful. When asked to compare the importance of marketing with operations, finance and other business functions there was some variation in response. Some of the companies suggested that marketing is currently the most important area of their business. However, other organizations were more reserved, noting that the best marketing department in the world will find obtaining work very difficult if the company's operational performance or financial health is poor. It should be highlighted that the companies which suggested that marketing is the most important area of business in no way believe that the other areas can be ignored. Each of the companies understand that a business must perform many tasks, none of which can be neglected without damaging the companies ability to remain competitive. The differences are certainly not critical and one thing that each of the companies agreed upon was that the emphasis placed on marketing has increased by several orders of magnitude in the last few years. There is no doubt that the organizations feel that up until more recently marketing was considered to be virtually, if not completely, unnecessary and hence received little attention. Marketing is now considered to be an integral part of the business, certainly as important as operations and finance and as a result of the previous neglect is currently receiving considerable attention.

That being said, it is very interesting to note that one of the larger organizations interviewed, has done and continues to do very little in the way of strategic marketing planning. While it understands that it must develop and implement a much more rigid marketing strategy, and is aware of the sort of thing that it could do, it has, as yet been unable to decide on a specific course of action. This in many ways provides a valuable reality check, since I am sure it is not an isolated example. Each of the companies state that changing the organizational opinion of marketing and becoming more sophisticated with regard to their approach has been a slow process, and is still far from complete.

### **What marketing achieves in construction companies currently**

When asked what marketing achieves currently the companies interviewed replied in a number of ways, although there was a common theme. That is, that marketing provides them with the information that is required in order that they can most effectively perform the sales function. It enables companies to win projects in those areas defined by their strategic marketing plans, and to satisfy the financial objectives as developed in each of their business plans. Marketing involves the identification of projects in the desired areas and then the development of the most suitable responses, carefully tailored to meet individual customers needs.

Two of the companies went even further and suggested that marketing provides the driving force behind their organizations, interestingly they also both perceive that their marketing and business strategies are synonymous. They both feel that marketing is far more than a sales process and that it enables the company to logically choose both in which segments to participate and exactly how it will serve those markets successfully in order to maximise profit. This emphasizes the proposal made in chapter 1, that marketing must not only be responsible for serving markets but directly involved with their selection.

Another belief shared by all the companies is that their understanding and use of marketing is still in its early stages of development and that there are some very important areas which need to be addressed in the future.

### **What marketing should achieve in the future**

One of the concerns which seems to be common to each of the companies is creating the ability to process and share information more effectively and efficiently. Particularly in the large multiple location organizations this is viewed as critical, since one of the areas that can really enhance competitive advantage is being able to identify and then respond to projects more quickly than the competition <sup>18</sup>.

Another concern that is felt by many of the companies is that marketing must also be responsible for educating the organization's employees about the importance of marketing generally and specifically the value of

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<sup>18</sup> Reference: STALK, G. (1988). Time - the next source of competitive advantage. Harvard Business Review. July - August, pp. 41 - 53.

customer relationships. It is essential that all employees understand that the development and maintenance of customer relationships greatly improves both the effectiveness and efficiency of marketing within the organization.

Other suggestions of what marketing should provide in the future included:

- 1) more careful control over the way in which the company develop, maintain and promote the image desired by the organization. This is consistent with the idea proposed in chapter 2 suggesting that an organization's reputation is one of the critical factors effecting the companies ability to obtain work in any given segment.
- 2) allow the company to expand into areas where currently the uncertainties provide sufficient of a barrier to deter it. This is an extension of the more strategic role which some companies perceive marketing should have. Marketing should constantly assess the state of the organization's current markets and forecast future activity. It must also be responsible for identifying attractive niches into which it might move and developing the services necessary to do so. In this way the organization will have sufficient information and confidence to adjust its positioning and focus should major changes occur in its traditional markets.
- 3) find the challenges that will continue to give employees an environment that will stimulate learning, test their abilities and thus maintain a high level of interest and enthusiasm. In this respect certain companies believes that marketing's responsibility to the employees goes beyond simply finding work, but providing work of a suitably stimulating nature such that each employee feels that he or she is developing along with the company.

## **THE MARKETING STRATEGY DEVELOPMENT PROCESS**

### **The different levels of marketing strategy**

The companies interviewed perceive that marketing strategy should be broken down in to at least two levels:

- 1) Long term strategy
- 2) Short term plans for achieving specific sales, what are often referred to in marketing texts as tactics

The long term strategy deals with identifying those types of business that an organization wishes to compete for, given an understanding of the environment and the organization's areas of expertise and experience. The short term strategies, that are vital for construction companies, are the ways in which they attempts to win individual projects. It is apparent from the interviews that there is often more emphasis placed on the marketing tactics. I would suggest that this is largely due to the fact that each project requires a construction company to prepare a highly tailored response, in accordance with the unique characteristics of the job. In contrast the long term strategy is considered to be far more stable, often only being completely reviewed on an annual basis, and even then modifications are normally very slight. Hence in practical terms, the marketing tactics can easily be perceived to be of overriding importance, since they must, and do vary considerably, while the long term strategy remains almost constant.

At the construction companies interviewed marketing strategies of all levels are developed in a number of ways. The major differences however, appear to be the variations in the way in which the marketing departments are structured (i.e. who is involved and where are they located) and not the actual mechanics of the process. Given this assumption, I will order the discussion in the following manner. First, I will consider the different levels of marketing strategy and how the companies interviewed actually perform the process, then, I will describe the different structures used by the companies to perform the task.

### **Long term strategies**

At by far the majority of the companies interviewed long term marketing strategies which are forward looking for anywhere from 3 to 5 years are developed and altered as necessary, on an annual basis. Although in certain cases the review process is continual in nature and no formal calendar is adhered to and in others no formal long term strategy exists. In the cases where long term marketing strategies exist they are developed with consideration of a number of different factors which are illustrated by fig. 3.1 on the following page. It should be noted that the different degrees of shading indicates the extent to which a company has control over, or can affect the factor (light shading indicating a factor over which the company has limited direct control). It is essential that companies understand the extent to which they can control these factors in order that they utilize their limited resources most efficiently.

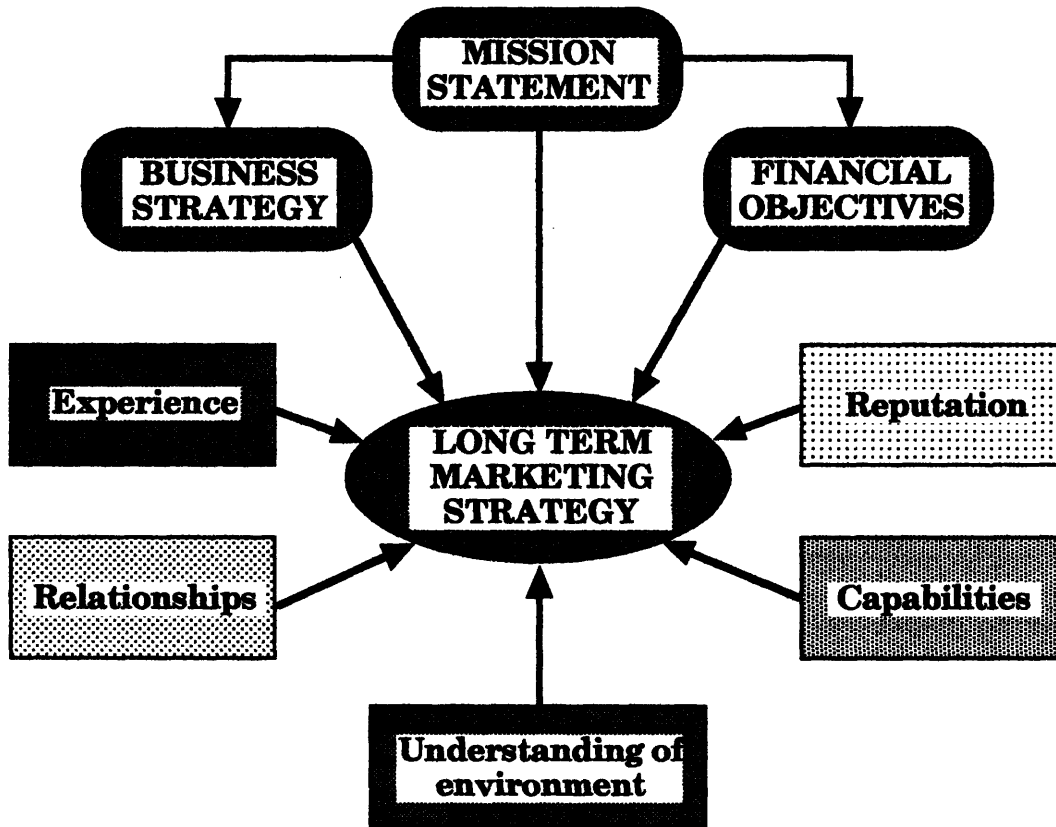
Each of the companies perceive the importance of having an excellent grasp of the states of each of the markets and understand that this necessitate the gathering of considerable amounts of information. They each believe that only by having an accurate impression of the environment in which they compete can they hope to choose a combination of segments that will maximise their potential, relating the various opportunities that exist to their specific capabilities.

The result of the process is the definition of the areas which the company feels that it is best positioned to serve and will provide the greatest opportunity. In addition the process identifies those services that will enable the company to either:

- 1) continue serving an existing market, or
- 2) penetrate an attractive new market.

In most instances the process also produces a number of specific goals, both for the quantity of work desired in each segment (in the larger organizations these forecasts are normally broken down by region) and desired levels of profitability. It deals with many of the broader promotional activities such as which conferences and exhibitions to attend, makes decisions concerning

changes to the company brochures and magazine reprints, and covers any company wide programs, such as account / relationship management activities. The final area which the longer term strategies cover at the companies interviewed concerns setting guidelines to which each individual proposal will comply and mechanisms by which the whole process is controlled.



**Figure 3.1 a graphical representation of the factors considered by the companies when developing long term marketing strategies.**

**Short term tactics**

These are the means by which companies tackle individual opportunities. Each company uses its available information resources to identify the areas that are of the greatest concern to the customer and then put together highly targeted responses, emphasizing the most relevant experience and expertise. In addition each wants to understand how its competitors will behave, including what they will emphasize in their responses, and as accurately as possible the price that they will be quoting. Another



desire that exists among each of the companies interviewed is that they should get involved as early as possible with projects, preferably well before an official RFP has been issued. By being aware of projects before an official RFP is issued, a company has far more time, in which to talk to the customer and other key influencers, learn as much as possible about the project, and as a consequence prepare a more comprehensive response. The extent to which this is possible varies somewhat from segment to segment simply due to differences between customers and their policies, this is a subject that will be discussed further in the later section concerning promotional activity.

This area of strategy is performed by each of the companies interviewed on an as needed basis by the responsible marketing groups, although it is common to have some form of regular review. These reviews may be on a weekly, monthly or even quarterly basis and allow the companies to discuss current opportunities and the approaches that they could use to pursue them. The review meetings are also an integral component of the control mechanisms, i.e. they allow the long term strategy to be scrutinized with respect to its performance and provide an excellent opportunity for any problems to be addressed.

### **The different marketing organization structures**

#### **Multiple segment marketing organizations**

This refers to the situation when companies have one market planning group responsible for developing and implementing specific strategies for each of the segments served by the organization. For example, at Macomber each of its three segments, Medical, Institutional and Industrial, have their marketing activities performed by a single group. An extension of this type of structure is also used by some of the larger companies with offices in multiple locations, for example Turner and Gilbane. Both these companies have a central or corporate marketing department and then a number of regional marketing groups that each serve all of the segments chosen by the company. The only real difference in approach of the two companies is the amount of autonomy that is afforded to the regional offices. At Gilbane, each regional office is responsible for developing strategies for each segment, so that they may achieve the goals established by the corporate group. The belief in this case is

that the regional teams are in the best position to develop strategies given their proximity to the markets, however the strategies must fall within certain broader corporate guidelines.

Turner, on the other hand have a similar structure but develop the strategies for each segment at the corporate office, the regional marketing groups being responsible only for implementing the strategies. The strategies at Turner are developed using its understanding of the situations in each region, extracted from information gathered by the regional marketing groups. It is believed that this set up provides the organization with a greater level of consistency across all its offices, that Turner feels is essential in order to maintain its reputation. The key to each of these examples, is that the marketing is done for each segment by the same group.

### **Single segment marketing organizations**

This refers to companies that market their services by specific business lines or segments and have specialised marketing groups for that purpose. This type of structure is more common among larger companies, particularly those operating internationally, for example Bechtel, Brown & Root and Raytheon. These companies have divided the marketing task between a number of specialist groups. Each group concentrates on one particular segment, the segments being defined by the type of service offered (methods of segmentation will be discussed in a later section). For example, Raytheon have a separate marketing organization for each of the following segments, Hydrocarbons, Power, Metals and Minerals, Food and Consumer products, Pharmaceutical / Biochemical, Infrastructure and Environmental. These companies believe that by having teams with highly specialised knowledge and understanding of a particular type of service that they can most effectively promote their capabilities. The three companies each suggest that this type of structure is driven by the customers' preference, since they demand a very high level of understanding of the problems and concerns specific to their operations. An interesting point to note is that these companies are very similar both in the type of services they perform and the global distribution of the customers.

### **Dual marketing structure organizations**

Another interesting approach to developing the most appropriate marketing organizations is illustrated by Gilbane and Morse Diesel International. Both these companies perform the majority of their marketing on a regional basis, or multi segment basis, i.e. they have people responsible for marketing to multiple segments in each regional office. However they both simultaneously operate a cross region, single segment marketing group, responsible for obtaining a certain type of work in all of the locations that the company is active. For example, at Morse Diesel this group deals with all correctional work, including courthouses and prisons. The organization believes that this type of work is sufficiently specialised, and different from the other work the company completes, that it is best served by a separate group. At Gilbane there is a cross regional, single segment group that deals with all process based work (work for chemical, pharmaceutical / biotechnology companies). The driving force behind this groups establishment, given the way that marketing is performed in other segments, is that the company believed it would facilitate entrance into this particular market. It hired, from outside a new VP - process with considerable experience in the area to oversee the departments development. The company intends that once sufficient experience is gained and demand created, the marketing responsibility will be transferred to the regional offices, as is the case for all other business.

### **International marketing structures**

Bechtel, Brown & Root and Raytheon each operate in countries all over the world, and as a result they must have international marketing capabilities. In each case the companies have established offices in strategic locations that act as both pools of resource and information gathering centers. These offices' responsibilities include, remaining aware of the opportunities that exist in each segment within their region, and communicating this information to the appropriate marketing group. For example, Raytheon have a department that is responsible for international marketing activities which comprises of a number of regional vice presidents, each with a dedicated staff. These groups are responsible for developing relationships, finding out information and obtaining leads for all business lines (n.b. different to the domestic marketing structure). Once a project is identified, the appropriate business line's

marketing department is contacted and they in association with the regional group develop a response to the proposal.

## **SEGMENTATION**

### **Methods of segmentation used by construction companies**

It is apparent from the interviews that each of the companies understand the need to arrange their customers into groups having similar characteristics. The companies interviewed really only use two types of segmentation, either by customer industry or on the basis service type. Segmentation by customer industry is used by each of the general building companies and they perceive this to be driven entirely by the customer. The companies have found that customers for a wide variety of services select contractors on the basis of proven ability and experience within their specific business. Each of the general building companies has found that in order to be considered by the majority of customers they must show significant concentration or specialisation in a particular area. This has led them to organize their businesses around groups of customers operating in specific industries and perform planning and forecasting for these industry groups. An indication as to the prevalence of this type of segmentation is provided by the number of companies that have developed industry specific brochures, presenting their previous experience and particular service expertise.

The other major type of segmentation, common among larger international organizations such as Bechtel, Brown & Root and Raytheon, is by service type. This differs from segmentation by customer industry in that it is far from unusual for a single customer to be a member of multiple segments. As an illustration Bechtel Petroleum, Chemical and Industrial Company (BPCI) considers its segments to be petroleum, chemical, industrial, refining and pipeline. The organization states that it segments its market in this fashion in response to customer demands. For example, large oil companies like to break down projects into a number of sections, and consider the extraction, transportation and refining and processing to be distinct and separate phases of their operations. Remaining consistent with this philosophy the customers perceive that each of the phases require different experience and expertise,

hence a construction company that wishes to serve these companies must also consider the different phases individually. One of the benefits of this type of segmentation is that it provides the customer with considerable flexibility, since it can choose different contractors for different parts of a single project or facility. In this way the customer can select those companies that they feel are offering the greatest level of service and value, which is consistent with the current business trend for concentration on core capabilities.

It should be highlighted that the BPCI example is within one division of larger organization, namely the Bechtel Group, however it is equally true when the whole companies are considered. Companies such as Raytheon, Brown & Root and Bechtel offer a tremendously broad ranges of services and although they might be selected to perform whole projects, they are organized in such a way that they can, if asked provide only certain services in coordination with other companies in order that a project is completed. Having the business line distinction as they do has enabled them to distribute the marketing task among a number of departments, each specifically responsible for one particular type of service.

This separation provides both advantages and disadvantages. A great advantage is that the company has different teams each looking for work for themselves, but often receiving projects that provide opportunities for other business lines within the company. A disadvantage is that this type of organization must be very carefully coordinated. As a result of sharing many customers great care must be taken to ensure that the different marketing departments do not end up getting in each others way, or badgering a customer to the extent that the whole companies reputation is soured. Brown & Root have recently developed an organization wide account management program in order to better coordinate the activities of each of the marketing departments. While the customers have driven the development of the different business lines, it is seen as critical by Brown & Root that they are perceived to be "seamless". In other words that the different business lines offer a pool of resources that can be mobilised individually or in concert to provide the services required by their customers.

## **HOW COMPANIES DEVELOP THEIR PRICES**

Although the exact details of how prices are developed at the different companies interviewed differ, there is, as should be expected considerable similarity with respect to the factors that affect the decision. The first point that was made at every company was that each opportunity must be considered on an an individual basis. It is impossible for the companies to simplify the process, e.g. lumping projects together and considering the factors that dictate price to be identical, since no two projects are ever the same. Each opportunity presents a unique combination of characteristics that must be carefully assessed when developing the price. The factors which each of the companies consider are very similar to those illustrated by fig. 2.6 in the last chapter, but those which each mentioned without exception included the following:

- 1) An estimate of the levels of competitive price
- 2) How is the company performing compared to forecasts, i.e. how hungry is the organization for work
- 3) The level of risk which the project entails
- 4) Unique services ability, e.g. proprietary technology

Each of the factors that a company considers to be important are assessed and the organization then makes an estimate of the correlation between price and probability of receiving the project. Given this relationship and the company policies regarding acceptable levels of return, risk and the probability of success it must set the price accordingly.

Without exception each of the companies feel that they are highly restricted in the amount of profit that they can make, simply due to the fierce levels of competition within the industry. One of the organizations stated that it has seen gross profit fall from 5% to 2 - 2.5% over the last 5 years and given that overhead costs were typically of the order of 3%, current profitability is at best very small and at worst none existent. Each of the companies understand that overhead costs and operational efficiency are more important now than

ever before. With increasing numbers of projects being awarded on a lump sum or guaranteed maximum price basis, an area in which companies can, and do relieve some of the pressure on profitability, is by cutting costs and improving operational performance. It was suggested however, that in the last 2 years it has been impossible for large organizations to make the reductions as fast as profit was falling. Although the companies utilize their understanding of the market to concentrate activity in less price sensitive segments they are finding that profit is depressed across the board, even in those segments that were traditionally more profitable.

An observation that was made by several of the companies interviewed, was that due to the current level of competition, not only are companies setting very low fees, but they are taking on ever increasing levels of risk. Certain companies suggested that they have tried to resist this temptation and in a number of instances have refused to bid on projects. This is because they understand that just one bad project could consume all other profit and severely damage the companies ability to operate.

BPCI have found one way of improving the level of profit which they are able to make. In the case of a cost reimbursable contract they develop the price by applying an overlay <sup>19</sup> to the salaries of the personnel to be involved at the home office. The total home office cost however, includes a share of the building rent, utilities and a contribution to the employee benefits. The overlay, which under normal circumstances is about 100%, is therefore intended to cover all non salary costs and provide a margin of profit. Currently as a result of the pressure on prices the overlay is of the order of 65%. Bechtel have found that by proposing an overlay of 50% and a performance based incentive program equivalent to another 50%, that it can remain competitive while improving its profitability. It should be noted that total installed project price is the sum of the reimbursable part of the construction activities (i.e. man hours and materials) and the home office cost adjusted by the overlay.

One final point to be noted concerning pricing is that not only are current levels of profitability depressed and increasing levels of risk common but a number of the organizations interviewed feel that they are having to provide steadily increasing levels of service without any associated increase in fee.

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<sup>19</sup> The overlay is a percentage that is added to 1. This is then used to multiply the wages of the people in the home office in the calculation of the project price.

Raytheon however look at this from a different perspective, it feels that this is something that they should do, and strive to do, because it is an excellent means of remaining differentiated while simultaneously helping the company to focus on improving efficiency.

## **PROMOTION**

Promotion is viewed by the companies interviewed as being an essential part of their marketing activities. The term promotion is used to cover a very broad range of activities at the companies interviewed, and in order to improve the readability of the section I will divide what is being done into several distinct areas. The general belief is that through effective promotional activity the companies can position themselves favourably to obtain work. Without exception, but especially in the general building firms, it is perceived that promotional activity should enable the company to get involved with projects as early as possible. Indeed, this was emphasized by the fact that most of the people interviewed suggested, that if the receipt of an RFP is the first knowledge a company has about a project, then it is too late.

The key to success is being aware of projects well before they are officially being tendered, and preferably be viewed by the customer as instrumental in the development of the RFP. Each of the companies explained that in this way a company obtains a more detailed understanding of the project and is in by far the best position to prepare the most effective and appropriate response. In addition, it is suggested that being viewed by the customer as facilitators in the development of a projects scope can greatly improve a companies chance of subsequently receiving the project. This is a result of the customer's logical belief that the organization that provided so much input to the projects definition is, as a result of its early involvement, likely to have a considerably superior understanding of the customers requirements. Construction companies therefore use all means possible to gain this type of inside track or advantage.

The Kennedy companies provide an example of how an organization may attempt to gain this type of early involvement advantage. The organization is divided into two companies, one providing construction management and consulting services and the other providing general



contracting services. The consulting and management company has developed services that provide customer organizations with construction strategies, i.e. phased refurbishment / expansion plans. This involves a considerable amount of contact with the customers and the development of a relationship through which the Kennedy Companies become highly sensitive to the customers concerns and requirements. Having established this relationship, mutual trust and understanding with the management company it is not surprising that in many cases, when the customer decides to tender one of the phases, the associated contracting company is approached. Moreover the customer understands the high level of connectivity of these two companies, hence the ability to share information and thus has considerable confidence that the contracting company will fully comprehend and be sensitive to all its concerns.

### **Response preparation**

The companies interviewed all expressed that this activity provides the backbone of the sales process. The most common way for a customer to choose a contractor is on the strength of either a presentation, written proposal or a combination of both, hence each of the companies concentrate considerable resources in this area. Without exception the companies utilize all the information that they have obtained to prepare a proposal that is both responsive to the customers RFP, and presents the company in a manner such that it is set apart from the competition. The companies choose during the marketing meetings the way in which they intend to differentiate themselves from the competition, or the tactics they will use. The tactics can be based on one or more of several areas, including among others the availability of resources, level of previous experience or a unique service ability.

One concern that is of the utmost importance to each of the organizations, is the cost of preparing their responses, since this can be a highly expensive process. Some of the companies noted that they have to be very careful when deciding which proposals to respond to, especially in the case of large, lump sum projects. They highlighted that it is not sufficient to evaluate such proposals on the basis of risk and reward, since the key issue is the cost of the response in relation to their remaining marketing budget. They can, if they are not careful find that they waste much of their budgets on projects that they do not subsequently receive, hence organizations' concern

about keeping their win rate at an acceptable level. Macomber have decided that by being selective of the projects it pursues, and effectively allocating more resources per response, that the increase in win rate more than compensates for the higher investment.

It must be highlighted here that in many cases of government work or work for other public organizations, the only means by which companies can communicate their ability is through the written response. Because of the purchasing rules of such organizations many of the other activities, that assist companies in their pursuit of projects elsewhere are forbidden. Companies performing work in these areas such as Brown & Root Services Corporation, in many respects have their hands tied. For example they are unable to develop and then leverage relationships with the buying organization as a means of improving their chances of success, as is standard practice when dealing with private organizations.

### **Relationships**

This area is considered by each of the companies interviewed to be of great importance. It covers not only relationships with customers, but with architects, other engineering firms and anyone that an organization believes may influence a customer's choice of contractor. The most formal relationships are those between the customer and the contractor and these are handled in a variety of ways, varying in the degree of formality and organization. The advantages of well managed customer relationships were discussed in chapter 2 and these are well understood by each of the companies interviewed. However it should be reiterated here that in certain instances these relationships prove to be the means by which construction companies can gain the type of inside track discussed previously. The customer may approach a construction company with whom it has a good relationship and ask for advice concerning potential projects. This can provide the company in question with a considerable advantage if and when the project is put out for tender.

In the smaller companies the number of customers and their locations allows the activity to be performed in a less formal manner, for example at Macomber assigns custodians of certain relationships that are responsible for maintaining contact with one or more specific customers. The purpose of this type of contact is to remain in the forefront of the customer's mind and to

ensure that they are aware of the services that Macomber can currently provide. Macomber also assigns a senior executive to each project that it is awarded, in order to provide a point of contact to which the customer can come with any concerns they may have. In this way the executive acts as a sounding board and provides a strong indication to the customer as to Macomber's dedication to the project.

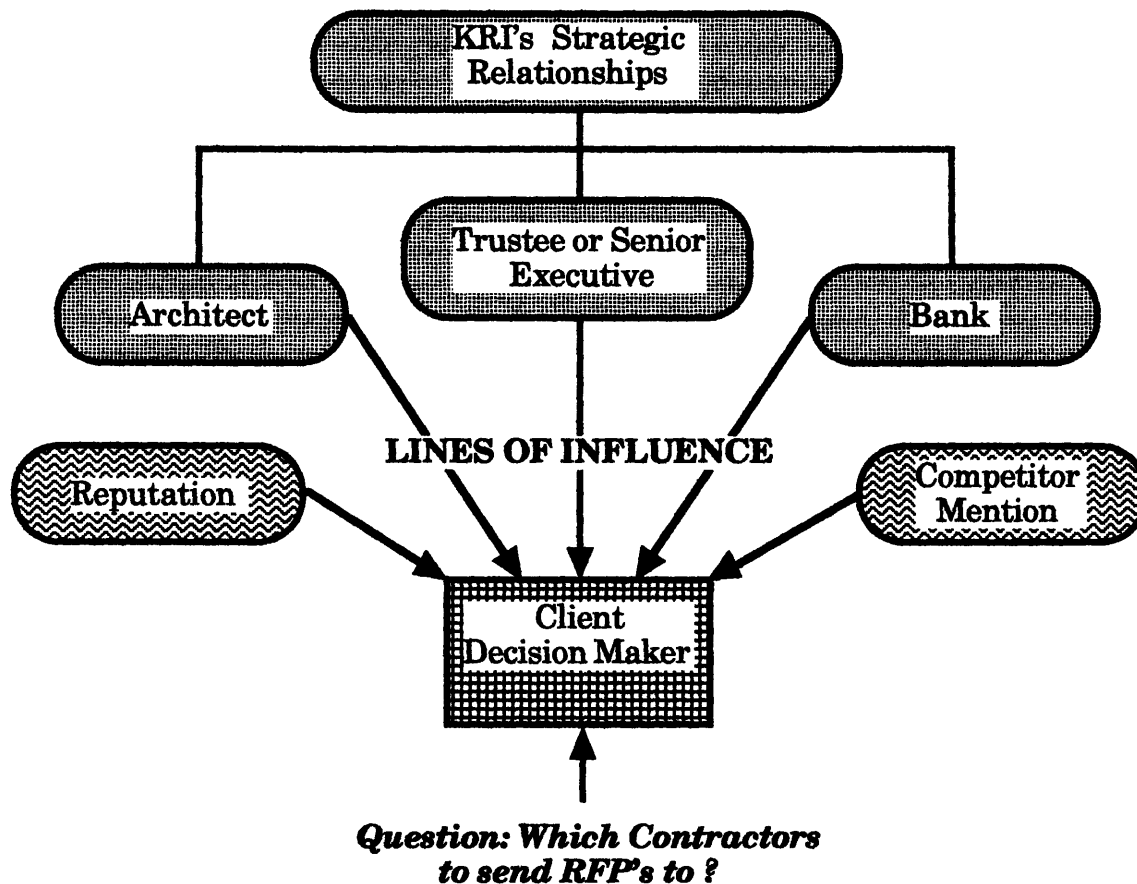
Bechtel have developed a more complicated arrangement whereby multiple relationships are developed and coordinated at different levels from business development managers up to very senior company executives. In this way they avoid reliance on any one contact for information and they can gain considerable leverage by having contact in multiple places. Bechtel considers this type of arrangement to be synonymous with a zipper, developing contacts along a scale of seniority, matching people of similar seniority and backgrounds.

Other organizations, such as Turner, have successfully developed national account management programs that are specifically designed to cater for geographically dispersed customers. Turner intends that its program should reduce the resources that a customer must devote to its building requirements by coordinating programs across a larger area, providing a central contact point for multiple locations. This negates the customer having to deal with contractors at each location separately to perform very similar tasks. An example of this type of account at Turner is provided by their relationship with Circuit City, this has involved them in an extensive refurbishment and new construction program for many stores across the country.

The last type of customer relationship type program that is becoming increasingly common is partnering. An example of this is provided by BPCI, which has established partnering relationships with 7 of its customers. These arrangements consist of a formal contract that is renewed anywhere from every one to five years, depending on the customer. The contracts formally set out all the commercial terms for any work performed under the contract and the length of time for which it is valid. During the specified time period the customer provides Bechtel with the scope of work for projects, which Bechtel then utilise to develop schedules and cost estimates which in turn the customer uses to assess the projects feasibility. All projects accepted by the customer under this agreement are then awarded to Bechtel under the terms

laid down by the partnering contract.

The other relationships that were emphasised, in particular at Kennedy & Rossi are those with organizations and individuals other than customers. Fig 3.2 is taken from the Kennedy Companies' case study and illustrated the types of relationships that they find beneficial. These relationships enable the organization to get considerable numbers of recommendations and can provide considerable influence over decisions in certain customer organizations.



**Figure 3.2. An illustration of the Influence of certain strategic non-customer relationships.**

### **Printed material**

Each of the companies interviewed use some form of brochures or other printed promotional material. The commonest item that each of the companies have is a general company brochure that normally provides some limited history of the organization and examples of the type of work that has been

performed by it in the past. In some cases, the single brochure provides more detail as to the exact range of services offered and in other instances the companies have developed brochures targeted at specific segments or for specific types of service. There is a definite feeling that due to the increasing sophistication of the customer it is no longer sufficient to present just a portfolio of glossy photographs. The information that is provided by the brochures must be relevant to the individual customer if it is to be of any real value.

In addition to company and segment brochures several of the companies produce a form of newsletter, that can be given to both employees and customers. The purpose of these newsletters is to keep them up to date with the progress of current projects and any new capabilities. An example of this type of publication is provided by the Gilbane Bulletin produced on a quarterly basis.

All of the companies interviewed also maintain a comprehensive set of magazine reprints and articles concerning specific projects, that are used to further demonstrate the companies experience in a particular area. One other excellent example of an innovative piece of promotional material is The Turner City. This is a poster sized illustration of a city that is comprised of all the buildings that Turner constructed, or was involved with, during the course of a single year. This clearly and simply conveys an indication as to the company's size, considerable resources and geographic coverage.

The ways in which the material is used is fairly consistent from one company to another. Each of the companies use the material to support any presentations they give, either to specific customers or to groups at conferences or exhibitions. They also often send the material along with a letter as a follow up to an initial meeting with a new potential customer. The intention is to gently remind them of the services that the company is able to provide and hopefully spur further contact.

An issue that was raised at Macomber is the cost effectiveness of the printed promotional material. It is highly sensitive to the fact that it is very easy to sink considerable resources of time and money into this area, and that in the majority of cases a customer does not make decisions as to which contractor to use on the basis of a brochure. Hence while there is no doubt at Macomber that the material is of some use, particularly when establishing

contact with new customers, its influence on the award of any project is very restricted.

### **Public relations and general exposure**

The construction companies interviewed were all concerned with the image that they promote to customers, the general public and government and regulatory authorities. As a result they are each highly sensitive to the need to be seen as an equal opportunity employer and to be environmentally responsible. Bechtel, for example has set up a department specifically to deal with community relations. The group is responsible for answering any questions or concerns from residents in the area surrounding any of the projects with which it is involved.

Another way in which construction companies promote their image is by the attendance of conferences, symposiums and exhibitions. Each of the companies interviewed make a point of attending various gatherings of customers, and even of other construction companies. The companies perceive that there are two major benefits to be gained by attending these types of gatherings, but that they are not without cost. The first is that they provide an excellent source of information, and the second being that it allows them to maintain exposure to large groups of potential customers and competitors. For example, BPCI attends the NPRA conference annually with a view to finding out which companies are expanding and into which areas. With this information it is able to assess the likely demand for the different types of services. BPCI also attends the ECC, a gathering of many construction companies, since this enables the organization to update its information concerning the competition. Specifically whether there are any new entrants in the market and which types of services and contract forms are being promoted by whom.

Gilbane and Macomber actually organize and host in-house lectures and discussions, to which they invite different customer groups. At these they present and discuss information concerning, the development of trends within a segment, or new contract forms and project delivery methods that might be applicable to the specific group present. Another example of more general promotional activity which relates to the companies maintenance of its customer relationships is the development and circulation of customer

surveys. These are being sent out both during the execution of, and in between projects. Although the formats are obviously slightly different, the purpose of both types is to signal to the customer the company's interest in providing the customer with the most appropriate service. It should be noted that this is, in many cases, a fairly new area for the companies simply because previously the need was not recognized. For example, at Turner it was believed that the company understood what the customers wanted very well and the level of satisfaction they were providing. This turned out to be a false assumption and since then the organization has issued surveys at least twice a year to all its customers.

## **INFORMATION RESOURCES**

As was highlighted in chapter 2, one of the factors affecting a company's ability to obtain work in a given sector is information. Without exception, the companies interviewed perceive that the quality of both long term marketing strategies and shorter term tactics are directly related to the quantity and quality of the information available. Although the exact nature of resources varied between companies the four main areas of interest included, project information, customer information, segment information and competitor information. Each of these areas is discussed below, with reference to exactly what is collected, where it is obtained and finally how it is then stored and distributed.

### **1) Project information**

Each of the companies interviewed maintained some form of project files although the precise content varied from organization to organization. For example, at Turner a file is created for each contract pursued. The file is updated throughout the project's life including the period of negotiation or bidding before the contractor has been chosen, and provides an excellent reference as to its current status.

The type of information that these project files contain, include; who the customer is, what the project entails, estimates and schedules. Then subsequent to the projects award, performance information, records of any deviations from forecasts, the responsible causes and finally the file should be

closed with information concerning the amount paid, cost of work and final profitability. All of this information is readily accessible to each company, it consists of documents received from the customer and material that is generated by the company itself. The companies marketing departments simply summarise and reorganize the material to suit their own requirements.

The way in which it is stored and organized is somewhat dependent on the size of the company. For example at smaller companies, such as Kennedy & Rossi and Macomber the information is kept in paper based files whereas at Turner and Bechtel the information is stored on sophisticated computer data bases, accessible from each office. It should be highlighted however that even in the smaller organizations there is a definite swing toward computerized systems as the price becomes less prohibitive.

## **2) Customer information**

Each of the companies interviewed maintain formal customer files, although both content and organization differed between them. The information contained by these files ranges from the conventional, such as key contact people, projects previously completed, annual turnover, profitability (accurately if public held and best estimates if private), geographic locations and principle areas of concern and service requirements to the less conventional including key personnel' recreational interests, e.g. golf handicaps, association and, or board memberships. It should be noted that none of the companies feel that wishing to obtain the less conventional type of information is in any way unprofessional, which has often been a problem in the past for professional service marketers. All of the companies interviewed perceive this information to be invaluable, since it enables them to most effectively present their capabilities to their customers and treat each individually.

This information is obtained by the companies through both their marketing departments and those other company employees that are charged with the responsibility for particular customers, as in account management programs. The information is gleaned from a number of sources including, newspaper and business magazines, annual reports and 10K's, industry journals and exhibitions and most importantly customer relationships. It should be highlighted here that these relationships, not only provide information about the customers with which they are formed but also other



organizations that compete within the same business.

The way in which this information is organized and stored is very similar to the project information, again it is dependent on the size of the company. The bigger organizations mostly utilize computer systems. These are either centralized, multi regional (Turner and Bechtel) or regional (Gilbane). The cross regional computer systems simply facilitate the use and sharing of information by offices in geographically dispersed locations and although Gilbane see the potential value of this type of system they do not believe that they have suffered as a result of having unlinked offices. The smaller companies, particularly those in only one location, notably Macomber and Kennedy & Rossi tend to keep the information in simple paper files. Additionally in smaller companies there is a tendency to have some of the information simply retained by certain personnel, it therefore only necessary for anyone requiring the information to know who to ask. An observation that was made by the companies with computer systems is that amount of use the computer systems get is very much dependent on the individuals concerned. In some instances employees are reluctant to spend the time getting to know the system and hence utilize it only in certain instances, this is seen as a problem as the usefulness of the system is very much a dependent on it being consistently updated.

### **3) General segment information**

This information is gathered by each of the companies interviewed, although there are considerable differences in the level formality with which it is obtained, stored and distributed. The type of information that each of the companies are interested in includes, general economic activity, trends within each segment with regard to process or operating standards and any changes in regulatory or government legislation. One example of the type of information that interests a number of the organization interviewed currently concerns the pending reorganization of the health-care industry in North America. The industries final form is strongly dependent on the content of the government legislation that is eventually agreed upon. Another example of the type of information that interests Brown & Root, Bechtel and Raytheon is the relative supply and demand requirements for power within a country and any trends that appear to be developing. This knowledge allows them to more accurately

assess the potential for power station design and construction within any given region.

Although the type of information that is gathered is similar at each of the companies interviewed there are significant differences in the manner in which the information is obtained and subsequently distributed. The larger organizations for example, appear to perform the task in a considerably more formal manner than the smaller companies. At the larger companies more effort is expended in obtaining the information. Brown & Root for example, attend industry symposiums and lectures, utilize their university affiliations and send bright individuals through various academic programs in attempt to remain abreast of the state of the various markets in which they compete. While the smaller companies do track operating and economic trends, they feel confident that it can be achieved in a less formal manner and without any specific organization wide programs.

In addition to the differences in the formality with which the information is obtained there are considerable differences in the way in which the information is distributed. For example, certain companies produce and distribute industry outlook reports on a regular basis (although not as regularly as it would like) that summarize the situations in their different markets. Whereas other companies feel it is sufficient to make the activity part of certain more senior employees responsibilities.

I would propose that the differences in approach in this area are the result of the type of organization. Bechtel, Brown & Root and Raytheon are examples of truly global companies. They each provide specialised services for which the markets are global in nature, e.g. oil refineries, drilling and production platforms, power stations and dams. This requires them to understand the economic situation in a multitude of areas across the world, the sheer scale of this task necessitates their more formal approach.

#### **4) Competitor information**

This information is gathered by all eight of the companies interviewed. The types of information that they are interested in obtaining and remaining up to date with include, the type of service and contracts that competitive organizations are pursuing, particularly if there is any fundamental change, for example, opening a new office, leaving an existing market, entering a new

market, or promoting new services in existing markets. Additionally they each expressed a keen interest in knowing what projects their competitors win and trying to assess the size of their backlogs. This provides them with an indication as to how hungry they are for more business and thus enables them to more accurately predict their pricing strategies. Having these types of information allows a company to make judgments concerning any change in emphasis or direction among its competition, and make adjustments to its own strategy as it sees fit.

The companies obtain the information in a number of ways including, reading construction industry publications, such as ENR and Construction Business Review and through membership of various industry groups such as the AGC. Specific examples include, Bechtel tracking the employment advertisements, since these provide an indication as to their competitors work load and Morse Diesel utilize a clipping service that collects and groups articles on specific competitors found in newspapers, business journals and magazines. Turner, Gilbane and Macomber find that one of the best sources of information about the competitions is its customers, since they regularly draw comparisons between the performance of different contractors.

It is believed by each of the companies interviewed that the information is readily available and as such less emphasis is placed on its collection and distribution. In most cases the information remains unwritten it is simply expected to be carried by the companies personnel. Turner, however places more emphasis in this area and actually maintains files on its competitors, with particular reference to instances when it loses a contract to one or them. This assists them with identifying the reason that they lost and allows them to attempt to rectify the situation in the future. It is worth noting that one of the organizations used to have industry specific reports compiled by a corporate Information Resource Center. These reports profiled the major competitors and detailed their resources and experience. However, now the responsibility has been passed to the people in the marketing departments in an attempt at reducing costs.

### **Additional information resources**

There are two areas of information that Gilbane maintains that are worthy of special note. The first is a computerized "Skills Inventory", this details the experience and training of each of the companies employees and is used to assist the forming of project teams where particular expertise is essential. The second area that they have developed is a computerized "watch out file" that details any difficulties experienced performing work and how they were overcome, that is used to improve future efficiency. Although both of these are more operational in application they certainly provide differentiation and are thus valuable marketing tools.

### **WHO IS INVOLVED WITH MARKETING AT CONSTRUCTION COMPANIES**

An area of critical importance, regardless of whether it concerns the development of long or short term strategy, is the background of the people involved in the process. By the far the majority of people involved with marketing at the companies interviewed have backgrounds in the operational side of the business. There is genuine concern at each of the companies interviewed that they need to get more marketing / business oriented individuals to perform the task. Highly successful project managers rarely make the best marketing people, this being the result of the different skills each job requires. As a project manager it is necessary to be fairly dogmatic and authoritarian to ensure that the project is completed on time. A marketing person however must be far more open to external suggestion and be more sensitive in general to the needs of customers. Project managers have a tendency to shut the customer out once a project has been awarded, since the primary concern is to complete the project as per the design and schedule. In many cases however the customer needs continued attention, since they wish to be kept informed of progress and to be able to communicate any concerns or questions to the contractor. Interestingly in a number of the companies the executives in charge of marketing have had some more formal business / marketing education.

The companies each perceived that it was important for them to find individuals with both an understanding of the business and an ability to

understand and effectively tackle complex buying organizations. The understanding of the business is essential since the people involved must have a certain level of credibility with the customers, however the amount of experience needed varies somewhat depending on the area of business. Most of the companies expressed that they would like to have marketing departments made up of individuals with a variety of backgrounds. These should include people with operational expertise, people having worked with the customer organizations and those with some more formal business / marketing training.

Above all the companies understand that it is necessary for marketing personnel to be creative. They must be able to develop solutions on the basis of their understanding of an individual customers needs, and not attempt to pigeon hole people, or organizations. It is essential for them to be flexible, as more than anything, as has been mentioned before, customers want to be treated individually. Customers will be impressed by a marketing department that is able to really talk to them, without just making a sales pitch for those services which the company believes it performs well. Marketing personnel must be able to listen to, and understand the customers requirements and then explain how the company's capabilities may be adapted in order to provide exactly the service that is required.

## **MARKETING CONTROL**

This is an area that was mentioned in chapter 2 as being critical if a company wishes to obtain the greatest benefit from the marketing process. The companies interviewed have set up a number of mechanisms that allow them to control the marketing activity, examples of which will now be discussed.

### **Project screening meetings**

The first control mechanism that the majority of the companies utilize is their information concerning the profitability of different types of projects and customers to assist them in prioritizing the different opportunities. The companies all have screening meetings of one form or another held on either a monthly or quarterly basis. The purpose of these meetings is to identify those opportunities that are most attractive in terms of what is known about the

project, the customer and the competition, hence the likelihood of receiving the project. The resulting consensus of these meetings enables the planning group to determine the amounts of money that should be allocated to each response. It should be highlighted that each of the companies is acutely aware of the expense associated with preparing responses and thus these meeting are intended to enable them to distribute the funds to those projects that have both the highest probability of success and the best levels of profitability.

The other major issue that is discussed at these screening meetings is the company response to requests for bids on projects that lie outside the areas defined by the company's marketing strategy. The decision as to these projects is dependent on a number of things, although those most commonly mentioned include:

- 1) does the company have the expertise to complete the project satisfactorily
- 2) does the company have the resources available to complete the project
- 3) is the request from an important customer
- 4) has the company received projects equal to the forecasted volume

The critical issue is how strictly the company wishes to stick to its strategy. At the majority of companies projects that lie outside the areas specifically identified by the strategy are discussed and a consensus reached as to whether or not to accept them. The deciding factor is the decision regarding whether performing the project will distract the company too greatly from its principle objectives.

### **The decision not to bid on a project**

The second way in which companies exercise control over their marketing activities is by having the ability to refuse to bid for work, either within or outside those areas specified by the strategy. As examples of the reasons given for refusing to pursue certain opportunities Macomber gave the

following list:

- 1) poor customer reputation for either being confrontational or withholding payment.
- 2) lack of capacity, i.e. the company would be overstretched, possibly leading to falling quality and thus a damaged reputation.
- 3) ominous contract terms, transferring an unacceptable level of risk to Macomber.
- 4) the responsible architect has a poor reputation for being uncooperative and confrontational.

While each company had a slightly different list the examples given above provide an accurate indication as to the sort of reasons that a company might sight for refusing work. The underlying principle is that each of the companies by being selective, within reason, about the type of projects they accept can effectively minimise their exposure to risk. It is understood by each of the companies that many of the projects undertaken are a sufficiently significant fraction of annual turnover that problems on any one can severely limit or even nullify the company's ability to make any profit. More over while problems with one project can greatly affect a companies profitability, problems on more than one can, in certain circumstances lead to bankruptcy.

### **Marketing budgets**

At all but one of the companies interviewed a marketing budget is established and controlled. Control of the marketing budget is viewed as critical since preparing responses to projects is a very costly process, each of the companies that have budgets express considerable concern about the allocation of the budget among different customers and projects. At the companies which have a number of different office locations the budget must be divided among the various regions by some process. For example, at Gilbane the budget is developed at a corporate level but must be divided among the regions via a process of negotiation, each region having to present its forecasts for the opportunities that it expects to be requested to bid on.

Another issue that is seen as critical by the companies is the ability to cease activity aimed at securing a project if it becomes apparent that the viability is in question. An example of a company having to stop funding the pursuit of a project is provided by Brown & Root Services Corporation. It pursued one particular project for a number of years, but having spent \$1.5 M decided that the project negotiations had reached a hiatus that was not going to be resolved and so ceased any further involvement. While this is an extreme example it highlights the fact that the marketing budget is a scarce resource and the need for great care when deciding which projects to pursue.



**CHAPTER 4**  
**OPPORTUNITIES FOR IMPROVING**  
**MARKETING AT CONSTRUCTION**  
**COMPANIES**

**Introduction**

There is no doubt that if the companies interviewed for this thesis are representative of the industry that marketing has very rapidly become one of the areas of greatest concern within the business. The reasons why this has happened have already been discussed in chapter 1. However, the rapid adoption of a new way of thinking is always fraught with problems; lack of previous experience and confidence are compounded by the inertia to change which is present within any organization.

The purpose of this chapter is to present the authors opinion as to what is happening within the construction industry with regard to marketing. The first section will identify areas in which significant improvements could be made. In the second I will present a prioritized list of opportunities that might enable construction companies to improve their performance considerably.

**AREAS IN WHICH SIGNIFICANT IMPROVEMENTS COULD BE MADE**

Although the companies interviewed exhibited many variations in approach to the marketing task, there were significant underlying trends, that if indicative of the entire industry are certainly worthy of consideration. I would propose that while construction organizations have become considerably more aware of the importance of marketing, they have, as yet, failed to identify many of the activities from which they might benefit. In addition, the implementation of the those policies that they have identified leaves considerable potential for improvement. It appears that many of the changes instituted have had their performance limited by inappropriate measures of

performance and ineffective control mechanisms.

Before I continue with the discussion I will define three terms that will be used throughout the discussion.

**Long term marketing strategy:** this refers to the plans which companies develop and review, normally on an annual basis. They include identification of the segments which a company wishes to serve, and the define the types of services that will be promoted in order to obtain work in those segments. They should outline the metrics by which performance will be measured, establish goals and provide mechanisms by which the process may be controlled.

**Business development:** this refers to the process of identifying and following up opportunities that the company wishes to pursue. It is not simply receiving RFP's, although certainly this is a part of the activity. It includes all the means a company utilises to obtain information concerning opportunities, i.e. through its relationships with both customers and non-customers, by remaining up to date with business journals and papers and simply by remaining aware of the environment in each segment. It also refers to activities designed to stimulate or create opportunities, such as offering financing or the ability to take equity positions in projects that would otherwise be ill-affordable by the customers.

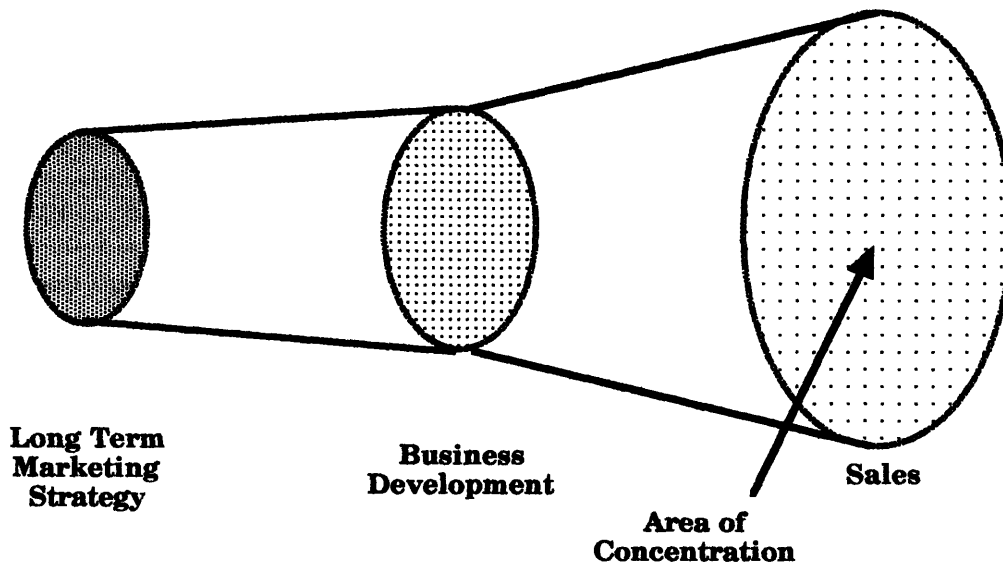
**Sales:** this is, as one would expect, the set of identified opportunities that are actually awarded to a company. It is the process of closing a deal as the result of developing a targeted response, utilizing all the information obtained to impress upon the customer how the company is best suited to serve them.

It is apparent that the emphasis in marketing departments within companies lies very much at the end of the process, or on the short term sales tactics used to win individual projects. I would suggest that the overall higher level, or longer term strategies, are being neglected both in their preparation

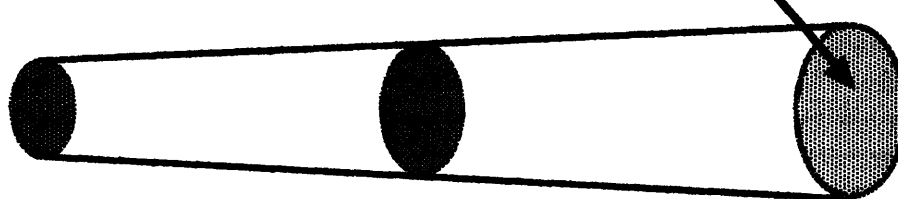
and implementation. These strategies seem to be little more than continuations of the approach common before marketing became of such interest. That is to say, they loosely define the areas in which the company wishes to compete, based on where they have worked historically and what their customers ask them to do.

The second major problem with the marketing activities at construction companies is the apparent lack of control. The long term strategies that are developed are supported by little in the way of control mechanisms that should be designed to facilitate their implementation. Figure 4.1 illustrates firstly what I perceive to be happening at companies within the industry, and secondly, what I am suggesting would be more beneficial.

**Effect of loosely defined strategy and limited control**



**Effect of well defined strategy and good control**



**Figure 4.1 An illustration of the differences between current and suggested practice with regard to marketing activity.**

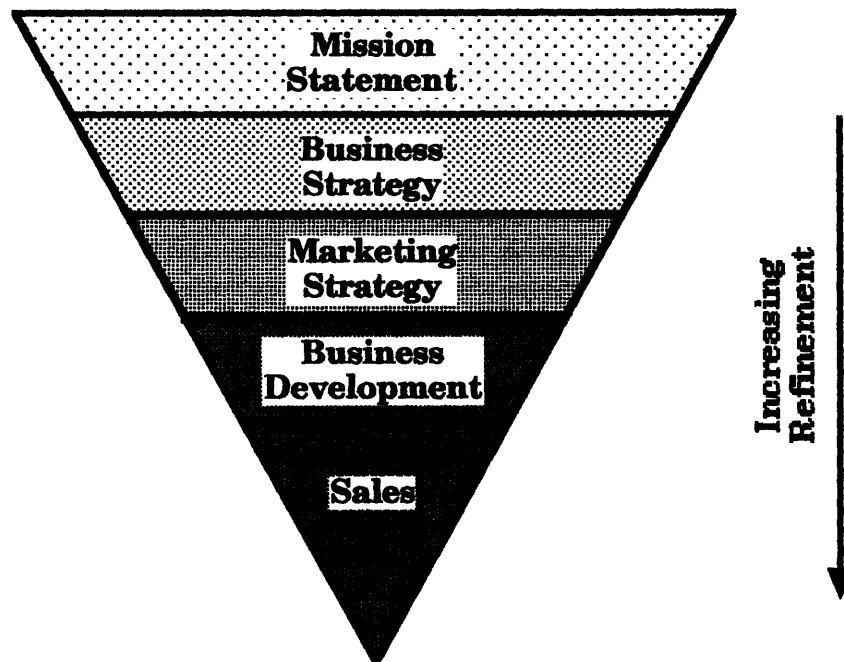
The first diagram in fig. 4.1 shows that the long term strategies being developed cover a fairly broad area. This is illustrated by one of the companies that listed, 13 segments that it wished to serve. Some of the larger organizations which segment their markets by type of service, consider a huge number of highly variable projects. For example, within the "Civil Engineering" segment projects might range from the construction of road and rail bridges to dams and waste water treatment facilities. In these cases the areas which the company has identified as being those in which it wishes to compete, are either large in number, or broad in definition. The diagram then shows that as the marketing process proceeds, through business development and sales, the area in which activity is concentrated becomes steadily larger. This is a result of the poor control exercised by the company, the sales being highly dispersed and indicating little in the way of specialisation.

The second diagram in fig. 4.1 is intended to portray the situation that I am proposing would be more beneficial. It starts with a long term strategy that is far more highly focused, i.e. limited to a small number of well defined segment and service combinations. Additionally the control mechanisms are such that the degree of dispersion in business development and sales is greatly reduced. The result of this is that the company actually obtains sales in the areas that it set out to, and has obtained more concentrated experience, hence is perceived by customers to be more of a specialist in those areas.

I am not by any means suggesting that the short term tactics are less important (indeed, they are absolutely critical as I have mentioned in preceding chapters), just that their ability to improve profitability is restricted by the quality and completeness of the long term strategy. By this I mean that a company may consider itself to be performing very well, given its current set of segments and combination of service offerings. However, by changing either the mixture of segments, services, or the way in which the segments are defined, the performance may be enhanced. Hence if long term strategy is neglected companies may be overlooking an opportunity of increasing their profitability.

Fig. 4.2 provides an illustration of the different areas which a company must consider in its development and implementation of a marketing strategy. It is intended to illustrate that as company progresses through the planning process, from a mission statement to actual sales, that the level of refinement

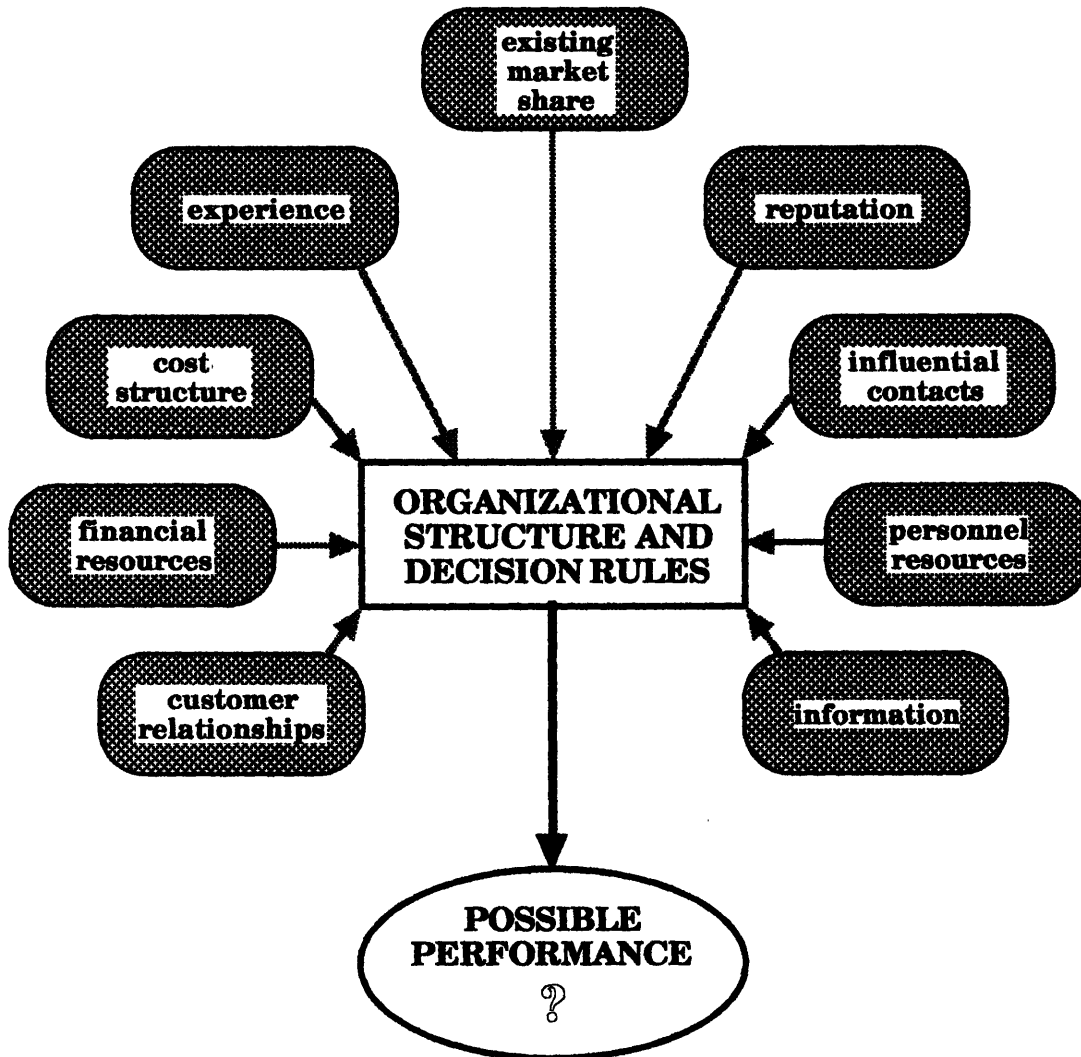
of the plan increases (hence the increasing density of the shading). It should not be misinterpreted to imply in any way that the quality or quantity of information required increases toward the sales end of the scale, simply that the focus of the activity becomes steadily smaller. I would suggest that the information requirement for each level is similar, if not identical, and that it is a mistake to assume that since the mission statement is intended to summarise the companies direction and policies that it requires consideration only of summary information. Only by considering carefully all the information (outlined in chapter 2) can a company hope to choose the most appropriate direction and determine the best strategies and tactics. Another point that can be made about fig. 4.2 is that it can be considered that the narrowing bases of the multiple triangles indicates a reduction in the time frame over which the activity is performed. In many respects fig. 4.2 is simply an extension of the diagram seen in the Macomber case.



**Figure 4.2 An illustration of the increasing level of refinement required for each activity.**

**The financial implications of neglecting long term marketing strategy**

I would argue that not only is specialization becoming more popular among customers, but that it is currently one of the most powerful means by which a construction company can improve its profitability. The argument stems from both the consideration of the customers demand for specialization, and the way in which a company can determine its potential in a given segment.



**Figure 2.2 An illustration of the types of characteristics that must be considered in order that a company may determine the level of performance attainable.**

Fig. 2.2, seen again on the previous page proposes that the ability to obtain work in a segment is a function of a number of factors, including among others, information, experience, reputation and relationships. By neglecting a particular segment in any given time period the company risks suffering reductions in the level of many, if not all of these factors. For example information soon becomes outdated, the value of experience decays over time and relationships must be nurtured on a continuing basis. Hence by neglecting a segment at any time a company effectively reduces its ability to obtain work there in the future.

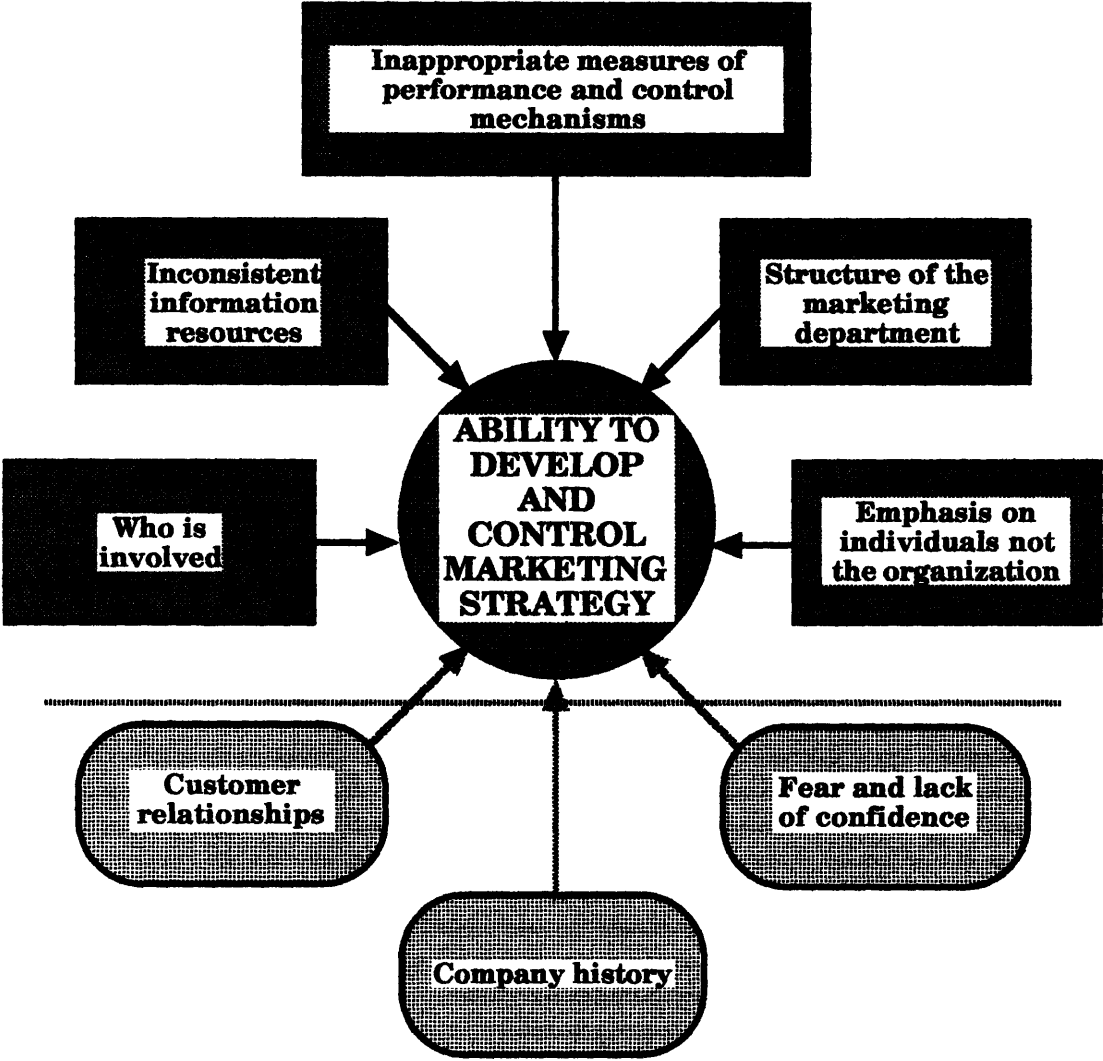
A similar effect is the result if a company tries to serve too many or too varied a combination of segments. In this case the danger is that they will find it difficult to obtain work in any of them, since they have spread themselves too thin, effectively reducing the levels of all the critical factors. This is particularly important currently as customers for construction services increasingly want to know that the contractors that they use have considerable levels of experience, expertise and are dedicated to providing service to customers in their specific business line. The demand for a jack of all trades is small and shrinking continually.

Hence the result of the reduced emphasis on long term marketing strategy and control is to undermine the very plausible way in which all the companies interviewed are trying to improve their profitability. By having such loosely defined and then poorly controlled long term strategies the companies end up accepting projects in areas other than those specified. This in turn has the effect of reducing any customer perception of specialization and should, if the argument made above is accepted, cause a reduction in the fees which they are able to charge. Thus as a direct result of placing too much emphasis on sales they are deluding their own, logically arrived at strategy.

### **Why construction companies are neglecting long term marketing strategy**

If the observations made in the previous section are accepted then the next question that must be asked is what are the underlying causes for the apparent neglect of long term marketing strategy. I would propose that the current state of marketing within the construction industry is the result of a

combination of factors. These factors are both varied in importance and to the extent over which an organization has any control, see Fig. 4.3 below for an illustration of these factors. It should be emphasized that in many cases the factors are linked to each other, the effect of one being compounded by the others. However in order to improve readability I will discuss each factor in turn, beginning with those that I perceive are both the most significant and those over which a company has some degree of control. Subsequently I will turn the attention to those areas that while certainly effecting a construction companies ability to perform the marketing task are characteristics over which the company itself has little or no control.



**Figure 4.3 Illustration of those factors affecting a construction companies ability to perform the marketing task.**



### **Inappropriate measures of performance and control mechanisms**

I feel that the most fundamental reason for the position of marketing in the construction industry today is the way in which the performance of marketing is both measured and controlled. I perceive that while the problem exists at a company level the cause lies in the way in which individual personnel are motivated and incentivized. It has been clearly demonstrated that one of the best way to influence an individual's performance and to encourage the execution of certain essential tasks is to link compensation to some form of quantitative review. An organization can not expect to achieve objectives as if by magic, it must establish explicit goals which have unquestionable centers of responsibility. The assignment of responsibility provides the essential motivation to achieve the otherwise meaningless objectives.

Construction organizations today place far too much emphasis on such measures as aggregated volumes and profitabilities with multiple centers of responsibility. While these measures provide some valuable information about a company they fail to encourage more careful control or compliance with the organization's marketing strategy. Goals of this nature advocate concentration on filling backlog, with no consideration of how the work should be distributed, much less whether or not it should come only from those segments identified by the marketing strategy. While at first glance companies might say so what, the problem becomes more obvious when we again consider the argument made on page 79.

In addition to damaging a companies ability to obtain work in particular segments, the reliance on such measures of performance encourage employees to view the long term marketing strategy as no more than a suggestion as to where they might look for work. It promotes the belief that the company is only really concerned with maintaining volume and a steady work force, and that exactly how this is achieved is of minor importance. It must be noted here that it was obvious that the companies interviewed do not take just any project, and that those falling outside the broad guidelines defined by strategy are the subject of some scrutiny before they are accepted. However, my feeling is that in the majority of cases, provided the project appears attractive in terms of risk and estimated profitability and particularly if it is for a good customer, it is accepted. I believe that there should be far greater control, and

that projects clearly outside the area defined by the strategy should not even get as far as project screening meetings. The marketing personnel should know the strategy and should concentrate on finding projects that comply with it, rejecting tactfully those that are inappropriate.

The receipt of RFP's for projects in areas outside those identified by the strategy suggests that message that is being received by potential customers is not as clear as it should be. One of the principle objectives of the companies promotional activity must be to clearly indicate to potential customers exactly the type of business the company is interested in. This is certainly a change in approach, since historically construction companies did as they were asked. Now however, as a result of the reasoning outlined above, it is absolutely essential for them to exercise more discretion and choice in selecting the projects that they perform. By not exercising this discretion then they jeopardize all the potential increase in profit attainable as a result of the specialization.

The solution to the problem outlined above is for companies to develop a series of benchmarks by which they can measure the performance of both the organization as a whole and the individuals involved with marketing. As I have suggested the performance evaluation must then be linked directly to compensation schemes in order to create the accountability necessary to encourage compliance with company strategy and policy. The measures that a company uses must be sufficiently disaggregate in nature to ensure that it is impossible for performance to be satisfactory or better, while ignoring any significant area. In addition I would recommend that in many instances companies should set performance measures for both the end result and the means by which the results are obtained. For example, profit and volume in particular segments are measures of the end result, and as such are certainly valuable. However, goals such as number of existing customers contacted, and number of potential customers contacted provide an excellent way of ensuring that parts of the marketing process are not neglected. I would suggest that the benchmarks might include things such as the following:

**market share:** within each target segment (this providing compensation if there is a great discrepancy between forecasted and actual activity).

**Number of meetings with existing customers**

**Number of meetings with potential new customers**

**Value of responses prepared by segment**

**Win rate in each segment**

**Average profit margin obtained by segment**

**% of work outside specified segments**

The basic idea is marketing and its components such as sales is very much a numbers game, and by directing the available resources it should be possible to maintain some form of consistency. This is particularly true in a business such as construction where the individuals involved often have very limited experience with marketing (this is an important area by itself and will be dealt with in a later section)

It should be noted that just because profit is currently depressed does not mean that it is any less important as a goal. In fact because of its current low state it should be receive even greater emphasis, a company must identify exactly how it can maximise profit given the opportunities available and the resources at its disposal. This is the very time when marketing is most valuable, not when everything is going fine but, making the best of what is available, understanding how things are likely to change and preparing for that change in advance. It is often sighted of the industry that there is far too greater bias in emphasis on volume and not profit, maybe this is a result of the low margins or maybe in-fact it is part of the cause. Too few companies seem as concerned about profit as they are about maintaining or increasing volume

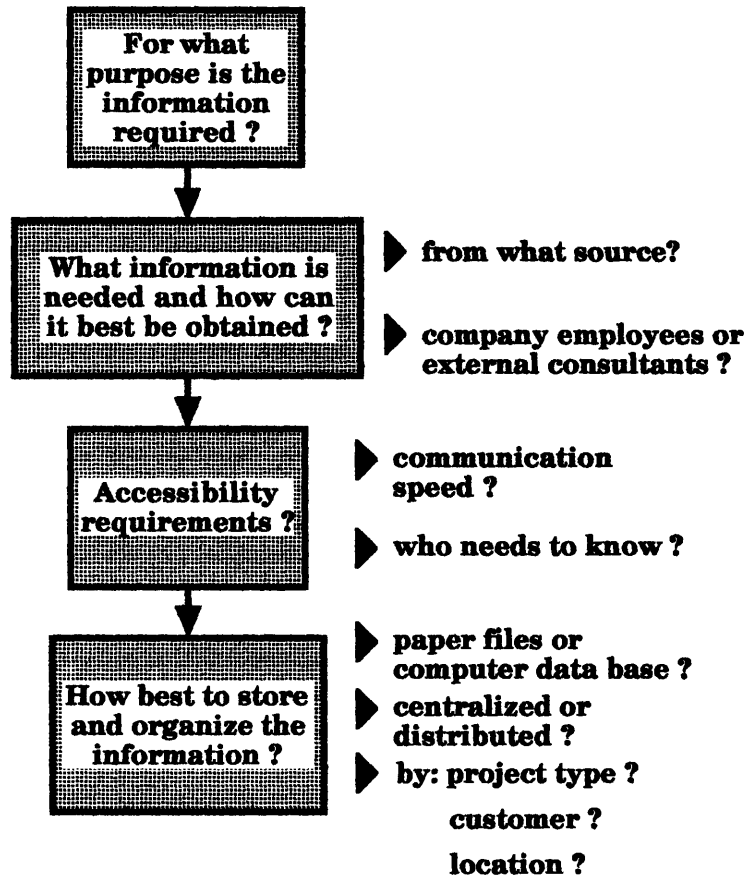
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<sup>20</sup> Reference: FMI Management Consultants to the Construction Industry (1993), Volume Kills, Profit Thrills. # 1 in a series of six essays on "What We've Learned After 40 Years of Working With Contractors.

## **Information resource problems**

Another of the major reasons for the current state of marketing within the industry is the way in which companies approach the collection, storage and distribution of information. Fig. 4.4 on the following page provides a schematic representation of the thought process concerned with gathering and subsequently using information, it will provide the basis for this discussion.



**Fig. 4.4 An illustration of the thought process involved when gathering and subsequently using information.**

The big problem at construction companies with information resources is not misunderstanding why the information is needed, although there seems to be more emphasis on the short term requirements, or indeed what exactly is needed. Indeed, each of the companies interviewed understand very well the first two stages illustrated in fig. 4.4, the problem however is lack of consistency regarding its collection, storage and distribution. The lack of consistency means that different regions or individuals place emphasis in

different segments as a result of their own particular background, area of expertise or prevalence of opportunities. The result being that there is an increased tendency for the companies efforts to be erratically distributed with no particular pattern, and thus what strategy there is becomes further diluted.

Additionally there is often a lack of communication between offices. It is not always understood that by sharing information concerning customers, competitors and trends within the market that a company may obtain certain advantages. For example, if a customer is located in more than one area it will be beneficial for an office that has never before done business with the customer to have access to the information at another office that has done so. This, at the very least demonstrates to the customer that the organization is more than simply a collection of separate entities but an efficiently organization with broad reaching capabilities. The other issue is that in order for a company with multiple locations to most effectively develop either business or marketing strategies it is essential that it understands the conditions in each of its markets.

There are a number of reasons for this lack of consistency, the first being the responsibility for collecting the information. While marketing personnel should be aware of what is going on in their markets, with their customers and their competitors it would be highly beneficial to provide more explicit guidelines for them. It must be understood that any failing by the personnel involved is not entirely their fault, many of them are moved from positions of operational responsibility to marketing. Project managers and engineers rarely have the best understanding of marketing, they are often given the positions because of their ability to communicate effectively not because of their education, hence the company must provide better guidelines for them to follow. This is another area in which it may be advantageous to use some form of bench-marking to encourage the comprehensive gathering, storage and communication of information.

Some of the companies interviewed have made considerable investments in computerised systems to assist the marketing task, however they also stated that the use of these depended very much on the individuals involved. As was stated in chapter 2 an information system is only as much good as the frequency and completeness with which it is updated. Another reason for the lack of consistency stems from the absence of any company

wide standard procedures for the reporting of information. At Gilbane, as part of their decision to afford more autonomy to the different regions they allow them to develop their own guidelines for information collection and storage. While the structure of its marketing organization may be partly to blame, an area which will be dealt with later in the chapter, I would suggest that allowing offices to tailor their own information resources may be detrimental to the companies performance, for two main reasons. The first of which is that it hampers any effort to combine or make comparisons between information from different offices, which may provide crucial help in developing strategies. The second is that it does nothing to guide those offices at which the personnel are unaware of exactly what it is that they are expected to do. Having standard reporting procedures and forms would provide an excellent means of educating the employees involved with marketing that have little other guidance.

Another possible reason for the difficulties companies experience when attempting to develop long term strategies is the emphasis of marketing organizations on sales. This involves highly detailed understanding of individual customers and specific projects in order that the most effective responses can be prepared. The corollary to this, is that more general segment information and identification of developing trends or changes in the industry is, in many instances neglected as it is seen as being of limited application. Information of this nature is vital if an organization is to be able to develop appropriate strategies, since it facilitates the forecasting of future demand, setting of reasonable goals and logical distribution of resources. Thus I would suggest that although construction companies understand what information is required they currently place too little emphasis on those areas which would facilitate their development of more focused long term strategies.

Uncertainty promotes both setting unfocussed strategies and the acceptance of projects in areas other than those identified by the strategy. If a company knows that within the next 6 months at least 12 projects in the pharmaceutical segment will be offered for tender, 8 of them it understands it will be asked to bid on, and 2 of them it expects to win then it is in a very strong position from which to decline other work. If however it does not have this sort of information then obviously it will be more likely to accept projects as they present themselves.

## **Structure of marketing organizations**

As I stated in chapter 2 an organization's ability to market itself is very much affected by the way it chooses to structure the marketing group and the match with the opportunities. In addition, I would propose that in some cases the structures being used are contributory factors to the problems with control and consistency being faced by companies. This is primarily true for the larger companies where multiple locations are involved. The marketing task is such that it often involves a large number of people in geographically dispersed places. The result of this being an increased opportunity for variations, or differences in approach. Construction companies must understand that unless they implement fairly strict control mechanisms then it is not surprising that offices in different locations act almost as separate companies, sharing only a name.

In the larger companies it is apparent that there are two major schools of thought, the first being to have regional groups marketing a company's services to all of its chosen segments and the second being that separate groups are set up to market individual or specific types of service, e.g. civil engineering or the construction of power generating facilities.

I perceive that the first structure, the one most common at general building contractors, has several flaws with it. The first of which being that it aggregates responsibility for too diverse a set of markets which in turn encourages concentration on goals such as overall regional volume and profitability. Whereas I have already suggested that I believe other more specific measures of performance are necessary if a corporate marketing strategy is to be effectively controlled. It also promotes inconsistent research efforts, the problem sighted in the previous section, in different regions which can lead to gaps in information which are undesirable when setting strategy and developing sensible goals. It is simply human nature if a person is appraised on overall volume and profitability that research is performed and, as a result, work is obtained disproportionately in those areas which prove the least difficult. The "difficulty" of any segment being the result of the combination of factors shown in fig. 2.2 and simply supply and demand characteristics.

I would suggest that the regional organization of marketing also complicates the job of any central corporate marketing department,

specifically concerning the development and subsequent monitoring of long term, company wide marketing strategy. The reason for this being twofold, firstly there will be a tendency for the reports being too summary in nature, providing insufficient detail on any individual segment. Secondly the corporate office itself will then have to take these summary reports from each region dissect what it can about each of its target markets and combine them to before it is in a position to assess the success of a particular strategy. The central marketing department in most cases has more than sufficient to do it is therefore advantageous if the information they receive is both sufficiently comprehensive and logically organized.

It would be incorrect for me to suggest that any one marketing organization structure is optimal, since no two companies or their circumstances are identical. I can however say with certainty that companies must give more careful thought to how they organize the marketing department. The way in which everything is performed will be effected by the structure, from the gathering, storage and distribution of information to the preparation of specific responses. A company must choose the way in which it wishes to present itself and how best it can approach its target markets. It may be that different segments are best suited by different structures and in this case the company must decide whether or not it will be able to satisfactorily operate more than one structure simultaneously. If more than one structure is used then there must be very clearly defined responsibilities and lines of authority to avoid any unnecessary confusion or conflict between the different groups.

In my opinion the second structure mentioned, the specialist cross regional marketing groups, provide certain attractive advantages, specifically with regard to facilitating control. It should certainly reduce the chance of the information becoming filtered to such an extent that little may be inferred by the corporate group about the success in any particular segment. It should also help reduce the tendency for the company to accept projects in areas other than those identified by the strategy. The reasoning behind this statement is two fold, firstly the customer is less likely to ask a marketing group specializing in one particular segment whether it will do work in another than with a group that serves multiple segments (i.e. there is less in the way of grey area). Secondly the marketing groups themselves will be far more focused



and measurement of performance of both the strategy and the groups will be facilitated. Note if specialist groups are used they must be given goals in each region otherwise there may be a tendency to neglect certain ones.

It should be recalled that the specialist cross regional groups are used by both Gilbane and Morse Diesel in their process and correctional segments respectively, so the idea is not entirely alien to the industry.

### **The relationship between business and marketing strategy**

Although precise definitions of business and marketing strategies vary between companies one thing is apparent, that is that there is too little correlation in majority of cases. I would suggest that while the companies very often involve the same people in the development of both strategies there is still a tendency to view them separately. It appears that still all too often the business strategy is developed first and that the marketing strategy is viewed as the means by which the objectives of the business strategy may be achieved. As I stated in chapter 2 I believe that in order for a company to obtain the greatest benefit from its planning process that the two strategies must not be considered consequential but simultaneous in nature, as illustrated in figure 4.5 on the following page. The diagram is intended to show the requirement for market research information at every level of planning and of execution of the marketing strategy. In order to develop the most appropriate business strategy, avoiding too much in the way of trial and error, it seems logical to develop the marketing and business strategies simultaneously.

The reason for my insistence that they share a common source, that is, information concerning the companies capabilities, customers and the environment in which they exist. While in many instances much of this information is carried by the senior executives creating the strategies, I would propose that it should certainly be available as a result of the marketing departments research activities. Hence in the fig. 4.5 there are connections from business strategy, marketing strategy, business development and the



mission statement to market research. Further than this each of these connections is two way, that is to say that while the marketing department must provide information for planning activities and business development, the areas in which it focuses must be in some way defined by the activities for which it is being used. The constraint is absolutely necessary since available resources are in all cases finite, and as a result the market research efforts must have some direction.

The reason that I would suggest that it would be beneficial to develop the two plans simultaneously is that it will help avoid the situation where a business strategy is chosen on the basis of incomplete information and that when the marketing strategy planning is performed it becomes apparent that the business strategy has some serious flaws. Thus, the business strategy must be redefined in light of the new information. The point being that the information was available all the time, just that due to lower level of refinement of business strategy in comparison with marketing strategy, as illustrated by fig. 4.2 there is a temptation to use less comprehensive information.

### **Emphasis on individuals not on organization**

Another area which construction companies should consider carefully with regard to their ability to perform the marketing is the tendency for those involved to act, and be perceived by customers too much as individuals and not as being members of an organization. An excellent example of this is provided by the Morse Diesel case in the appendix. Carl Morse, to many of the companies customers was Morse Diesel and, as an individual he was very protective of "his" customers and made it known that other members of the company should leave them to him. One of the results of this was that very few people within the organization got much experience with this crucial marketing activity. This type of situation can effectively choke an organization, it becomes restricted by the ability of a limited number of people to obtain work, and then can experience further problems of personnel allocation due to the preferences of the customer for specific project staff.

This problem occurs as a result of the people performing the task becoming somewhat possessive or territorial over their position and

specifically over the information they gather and the relationships which they build. I would suggest that this phenomena occurs as the result of a combination of factors, two of the most significant being, availability of resources and customer preference.

The resource issue is that in many circumstances the burden of marketing is given to a relatively small number of people, each of which as a result is very busy, too busy often to communicate as effectively to others within the organization. This leads to a lot of information being known on an individual basis, hence when circumstances arise requiring particular understanding of either a customer or a project there is often only one person (or at best a small group) that has this knowledge. Information must not only reside solely in those individuals that obtain it, it must be distributed in order that the efficiency and effectiveness of marketing may be increased.

The problem of customer preference for certain individuals, which can exist for both operational and marketing personnel, while largely out of the hands of the construction company can be limited by careful management. Human nature is such that people develop associations to other individuals more easily than to whole organizations, however I would suggest that it would be beneficial for a construction company to promote the organization as being greater than the sum of the individuals. If customers are allowed to develop relationships with only one member of an organization's marketing group then it is hardly surprising if that customer prefers to deal with that person. Similarly if a customer of multiple projects receives the same project manager over and over, it is not surprising if after some time he or she request that particular project manager. The problem here is that the customers are being allowed to build a perception of excellence of these individuals, and not of the organization as a whole.

The problem with over emphasis on individuals as opposed to the organization occurs if staff are promoted, retire or for any other reason leave the customer must be comfortable dealing with someone else. It must be a priority of a company to convey that it has many people each capable of meeting the customers requirements and insuring that no customer becomes the "property" or responsibility of any one employee.

In order to avoid or to address this problem companies must develop clear guidelines for those involved with marketing and educate them in such a

way as to promote their performance of part of a team. These guidelines must be an explicit part of the marketing strategy and must be enforced, again requiring the institution of carefully monitored control mechanisms. Although account management programs are highly beneficial in terms of both the information they collect and the opportunities they provide, construction companies must be careful. They should avoid assigning one individual to a customer for extended periods of time and should promote and coordinate contact by multiple personnel and ideally develop relationships with more than one individual within the customer organization. An example of this type of program is illustrated in the Bechtel case.

### **The people involved**

Another area which construction companies must consider carefully and understand the way in which it affects their ability to perform marketing successfully is the people performing the task. In many instances the people involved with the process at construction organizations have limited experience and understanding of exactly what it is that they are supposed to do. In many instances the people have spent a considerable length of time in the operational side of the business, where, as was discussed in chapter 2, the demands are quite different. They are used to having a design, schedule and budget that have to be adhered to with as little deviation as possible, this involves them in a very authoritarian environment where they clearly understand what it is that they have to achieve. Marketing however, comprises many activities whose definition is not always clearly defined, this appears to be particularly true in construction organizations due simply to the inexperience. The result of this absence of understanding and experience is simply to compound the problem of inconsistency with marketing personnel all too often having to feel their own way as best they can. In addition it would be highly beneficial to companies when they developed strategies to have involved a greater number of people with real expertise in marketing. It should certainly help to avoid some of the oversights that seem to be being made currently.

The personnel, as a result, perform as well as can be expected given their limited experience and guidance provided to them. It is interesting to note that in each of the case studies with the exception of the Raytheon case that

the companies suggested themselves that they needed to re-assess who exactly was involved with the process. They believed that it will be beneficial for them to have a greater number of personnel with more extensive understanding of marketing. They also believe however that it is essential for the marketing personnel to also have a good understanding of the construction business since this is required in order to deal effectively with the customers themselves.

I would suggest that while it would certainly be beneficial for companies to employ more people with a broader understanding of the marketing task, they might experience considerable improvements in performance if they provided more clear guidance in the marketing strategy of exactly what is required. As I have tried to suggest in a number of places, although the people involved with marketing certainly impact its performance, a great deal may be achieved by simply instituting more careful control and appraisal mechanisms aimed at both educating and motivating personnel.

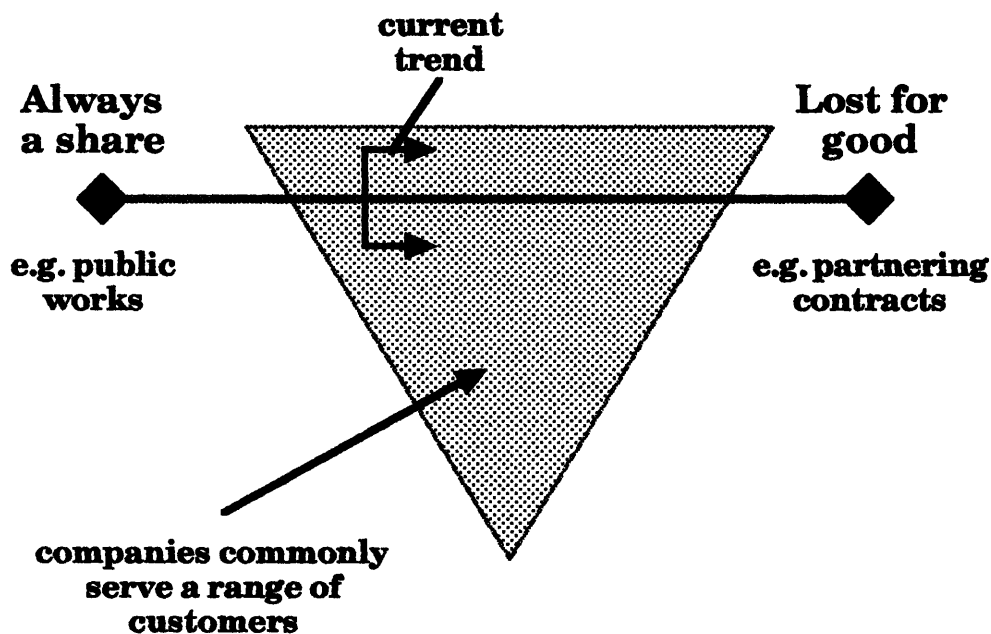
### **Customer relationships**

Construction companies have become very aware that there is considerable potential value associated with developing and maintaining customer relationships. However, I would urge them to be careful that they do not misunderstand exactly what their relationships provide them with. The reason for this caution is that the development and maintenance of good customer relationships can be a costly exercise and companies must be certain that the investment of both time and money provides sufficient return. At this point the discussion of previous chapters should be recalled, the value obtained from customer relationships goes far beyond just work that they receive as a result, it must also represent the information provided, which is essential to their successful operation. It is very difficult for a company to value such information, however, it should be noted that the more customers with which a company is in contact, the better its ability to forecast demand in specific segments. This forecasting ability is an essential component of the marketing control mechanisms, since it enables a company to set both more realistic objectives and more focused marketing strategies.

A considerable amount of work has been done in the area of industrial

relations by Barbara Bund <sup>21</sup>, and while I would strongly advise interested parties to consult the reference itself I will attempt to present the underlying concept. The basis of the work is that all customer relationships can be considered to lie on a continuum as illustrated by fig. 4.6 below.

The idea is that at one end of the continuum are customers that buy on every occasion on the basis of either lowest price or maximum perceived value and at the other end are customers that genuinely source work from one or more contractors with which they have some form of contractual arrangement (e.g. partnering). These customers are known as “always a share” and “lost for good” respectively, the names implying the way in which a company can consider its relationship with the customer. There is a genuine desire, and move toward the lost for good end of the continuum, although instances of partnering contracts are still very much in the minority.



**Figure 4.6 An illustration of the customer relationship continuum that exists in the construction industry.**

<sup>21</sup> Reference: Jackson, Barbara B. (1985). Winning and Keeping Industrial Customers: the dynamics of customer relationships. Lexington, MA: Lexington Books.

The problem that construction companies face is the tendency to consider relationships to be further toward the lost for good end of the continuum than in reality they are. In turn this encourages them to invest more resources than they probably should, which is especially concerning in an industry where financial resources are so scarce. Another result of this misunderstanding is that in many cases construction companies feel far more obligated to customers than they should. Certainly if a partnering contract exists they must be very careful when rejecting specific projects, even if they feel they are not included by the terms of the contract. By rejecting a project they risk damaging the relationship to the extent that when the contract is up for renewal the customer will remember the incident and seek a new relationship (i.e. lost for good). However, if no such agreement exists then a company must carefully consider whether or not it should accept projects from customers outside those specifically identified by the strategy. The choice is between potentially damaging a relationship, albeit not contractual one, or possibly damaging the companies ability to gain work in those areas that are covered by the strategy (recall the discussion in the section entitled Inappropriate measures of performance and control mechanisms).

The solution to this particular problem, if a company does not wish to compromise its strategy, is to ensure that the customer is made aware of the companies objectives from the outset. In the case of a formal partnering contract the terms should clearly define the extent of the services to which the customer is entitled. In either of the above cases or if for any other reason work is to be turned down, the way in which the customer is informed is highly sensitive. Great thought and care must be exercised when dealing with this situation, even in the case of a customer which the company does not ever wish to serve since the people involved may in the future work at other organizations which the company does wish to serve.

The other difficulty that construction companies must consider is how they deal with the range of different customer relationships that they have. In every case companies have customers distributed all along the continuum and must allocate resources appropriately, and develop different approaches depending on the nature of the customer. This particular problem is very important when developing individual responses although it is also important for companies to understand when they develop their longer term marketing



strategies.

### **History**

I would propose that a major reason for the problems experienced by construction companies attempting to implement a greater marketing emphasis is their histories. The problem lies in the way that companies operated, in some cases for up to 100 years, they provided pools of resources and know how concerning building. Indeed in many circumstances the requirements of different projects were not perceived by the customer to be very different, hence they could essentially perform any task which they were asked to, and did. Any specialisation occurred primarily as the result of the companies location and the predominance of a few types of projects, for example Brown & Roots involvement in the petroleum industry. In some ways the decision to perform projects in an area where opportunities were abundant could be thought to be driven by an understanding of marketing, or common sense. While this may have been true at initially, as time moves on other opportunities present themselves and companies must be able to identify these and develop the expertise required to serve them. I feel that in too many cases the markets in which companies operate are too much a result of the past and not of an analysis that identifies them as being the most attractive. It appears that as a result of the companies' history, there essentially no investment attitude or philosophy for change. Companies talk about the desire to improve profitability, but unless they are prepared to allocate resources to identify and then penetrate new, more profitable markets they will perform poorly.

This early concentration in markets is not the problem but the fact that there seem to be few companies that ever really change their fundamental area of concentration is troublesome, particularly in light of the increasing sophistication and desire for specialists of the customers. A company needs to be far more aware of changes in the environment since if it waits until one of its traditional markets either becomes redefined or simply evaporates then it is too late. As an analogy, if a cart maker failed to see that the invention of the automobile was a threat to his business then he would remain in the cart business and find that over time demand would decay exponentially. This is an

extreme example, however it is illustrative of the consequences of failing to understand and respond to changes in market conditions, construction companies are no different from any other business they must be looking today for the opportunities of the future and developing the expertise to be able to serve those markets. This is the activity that I feel construction organizations neglect.

Another habit whose cause is rooted in history is companies tendency to all too often accept projects outside the already broad areas defined by their marketing strategies. This is an extension of practices of old, when they did simply take projects as asked, while it may or may not have mattered in the past, as a result of the different concerns of the customer it certainly does today. How can a company be perceived as a specialist in certain areas by customers if it continues to accept projects outside those areas which it promotes as being its areas of specialisation.

While there is no solution or means of altering past practices it is possible to learn from them, see fault with them and attempt to prevent the mistakes of the past being carried forward any further. Construction companies must now make a concerted effort to more carefully scrutinize their service offerings and their target segments. They must not be, in any way trapped by their past and should be a fundamental objective of marketing to identify that combination of services and segments, not restricted by those having been offered in the past, that will provide the greatest opportunity for profit. Should the result of this analysis indicate that the company's current strategy is sub optimal then marketing should be responsible for adjusting the strategy, developing the expertise, obtaining the experience and positioning the company so that performance may be enhanced.

It is even more important in todays environment since customers are increasingly seeking greater "specialisation" and proven ability in there particular arena of business. Hence a company must understand that it can not suddenly decide to switch segments as demand falters, it must have programs that continually monitor its markets and that develop new areas of concentration before they become essential. In this way when one of its traditional segments becomes stagnant it already prepared and able to shift emphasis elsewhere.

### **Fear, or lack of confidence**

This is related to the companies history, they are, in most cases, relatively inexperienced with regard to marketing. As a result they are not prepared, when setting and then implementing strategy to be too restrictive, they leave the strategy suitably broad and even then except projects outside the areas defined for fear of failing to achieve volume goals. The lack of confidence is also a result of the information resources that the company has. By this I mean that if an organization has really performed the marketing task correctly it is able to predict with reasonable accuracy the amount of work that will be solicited in each of its segments and judge how much it can expect to be awarded. Armed with this knowledge a company may with far less concern or "risk" turn down work in areas other than those identified by the marketing strategy. If a company is unable to identify an acceptable amount of work in a particular segment then it has to be able to say whether construction activity is likely to pick up in the near future or whether the it might be better off looking for more prolific areas in which to operate.

I am not suggesting that some uncertainty is unreasonable, particularly at first, just that companies will never be able to reduce it unless they are prepared to try more focused strategies. It is impossible for an organization to gain confidence in something without first trying it, however there is often too greater perceived risk in making sweeping alterations to established practices. I would therefore suggest that construction companies must approach the problem incrementally, gradually refining the strategy allowing the company to see that it can achieve its objectives while remaining within the boundaries of the strategy. It is apparent that in many cases construction companies feel that they have very little control over the opportunities that they receive and therefore the type of work that they perform. Because of the way that marketing is set up in many companies at present, this may be true, however, it is a mistake to believe that this can not and should not be changed.

## **CHAPTER 5**

### **SUMMARY AND RECOMMENDATIONS**

#### **Summary**

This thesis has shown that although construction companies have recognized the need to become more market oriented, it is apparent that their knowledge, and subsequent utilization of that knowledge is still far from comprehensive. I am proposing that currently the majority of construction companies are experiencing considerable difficulties with bridging the gap that exists between a company's recognition of the need for market orientation and its ability to actually achieve it. In too many instances companies have not understood how their organizations' characteristics, such as their history and structure, will impact their ability to formulate and implement a comprehensive long term marketing strategy. In addition, as a result of the unique nature of every construction project and the necessity to develop original responses, companies place too great a bias on this, "sales" activity. Finally, in many instances, construction companies do not appreciate the degree of connectivity between business and marketing strategies and place constraints on marketing's responsibilities that needlessly restrict company performance.

The combination of these three factors often results in the development of long term marketing strategies with the following characteristics:

**lack of focus with respect to target markets, either too many, or ones with too broad a definition**

**too much the result of past success, i.e. limited consideration of non-traditional segment and service combinations, that may exhibit higher potential for profit**

**too short term in nature, failing to develop contingency programs that provide for unexpected changes in the environment**

**inappropriate measures of performance**

**insufficient and inappropriate control mechanisms**

Given the problem described above, the crucial question is:

**How can a construction company avoid this situation ?**

### **Recommendations**

The following is a list of recommendations concerning areas that a construction company must consider if it wishes to develop a more effective and profitable long term marketing strategy:

- 1) **The relationship between information resources and the ability to develop effective marketing and business strategies:** referring to the fact that any planning process must involve the analysis of all relevant information. An organization must understand clearly the type of information it requires and establish the best means of obtaining, organizing and storing the desired information so that is available to the planning team as required.
  
- 2) **The relationship between business and marketing strategy:** referring to the fact that one cannot be developed in isolation from the other and that they should both provide input to the other in an iterative fashion. In this way an organization should be able to develop the most appropriate strategies, on the basis of all available information and that include programs for the companies future development.

- 3) **The relationship between the development and implementation of marketing strategy:** referring to the essential requirement of any strategy as being adequate mechanisms for control. Further, that appropriate control mechanisms can only be developed with consideration of the following:

The organization's structure i.e. how is it divided ?  
by location, by business line <sup>22</sup> or by a combination of both.

Who will implement the strategy ?, specifically how well do they understand the marketing task ?

- 4) **The relationship between measures of performance and successful implementation:** referring to the fact that an organization must clearly identify the means by which the marketing strategy's success will be determined. For example, if a company wishes to have its work evenly distributed among different locations and segments there is little point in using total volume as a measure of performance.
- 5) **The relationship between assignment of responsibility for performance and successful implementation of marketing strategy:** referring to the fact that a measure of performance is of real benefit only if,

- a) it has a center of responsibility, e.g. a person or a department, and
- b) the person (or persons) responsible are motivated to to achieve it.

For example, a person's salary might be in some way linked to his or her achievement of a number of different performance goals.

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<sup>22</sup> Referring to companies that discrete divisions responsible for all customers for a certain type of service e.g. Civil Engineering, regardless of their location.

- 6) **The relationship between present activity and future opportunity:** referring to the fact that while an organizations history cannot be altered, it is largely responsible for the opportunities that it receives at present. In light of this, an organization must identify the areas in which it wishes to compete in the future and begin to direct current activity in such a way, as to ensure that at that time, it has the required history.

**APPENDIX A.**  
**Marketing In the Construction Industry**  
**Interview Questions**

**What is Marketing to Your Organization**

- How important is marketing to your organization in relation to other business functions such as finance and operations.
- How has its importance changed over the last 10 or so years.
- What does marketing achieve in your organization.
- What would you like marketing to achieve.

**Background Information**

- How much of your business is with repeat customers.
- What are the percentages of bid vs. negotiated work.
- What do you invest in marketing annually as a % of income and as a % of each job.

**How Does Your Organization Perform the Marketing Function**

**Strategy Formulation**

- Who formulates your service offerings and by what means, process or ad-hoc.
- Who decides what is going to be your point of differentiation and on what on what grounds.
- How often are these offerings reviewed and what prompts any changes.
- What services do you currently offer.
- What value are you providing for your customers.
- What interrelationship exists between your marketing strategy and your business strategy.
- How do you view sales and business development, where do they fit in your marketing efforts.

**Segmentation**

- Which market segments do you serve and approximately what % of volume does each segment represent.
- Why have you segmented your market in this fashion.
- Why have you decided to serve these markets, what attracted you to them.



**Pricing**

- How do you develop your pricing of projects.
- What is your target level of return.
- Do you find that you are providing an increasing level of service in order to remain differentiated while having to maintain prices.

**Promotion**

- In what ways do you pursue project opportunities.
- What do you perceive to be the value of your relationships with customers.
- What proportion of work is initiated by you vs. receiving RFP's.
- How do you maintain existing customers.
- How do you identify and subsequently approach new potential customers.

**Information Resources**

- Do you have an accurate idea as to the profitability of projects with respect to customers and type of work.
- Do you maintain customer files and what do they include.
- Do you actively track important trends within those segments which you serve.
- Do you track your competitors performance.

**Who is involved**

- Who does the marketing in your organization, is the effort centralized or regionally localised.
- How many people are specifically assigned to marketing and what is their job.
- What levels of authority, responsibility and accountability do they have.
- Where have the people in marketing come from, what is their training.
- Where do you think they should come from.

**Control Mechanisms**

- Do you use your assessment of expected profitability to aid the decision of which RFP's to respond to.
- Do you say no to work, if so on what grounds.
- How do you control marketing expenditure.

## **APPENDIX B MARKETING CASE STUDIES**

### **MARKETING CASE STUDY OF BECHTEL PETROLEUM, CHEMICAL AND INDUSTRIAL COMPANY**

#### **Introduction**

*This case study was prepared from an interview with Mr. W. McBride Jr., Business Development Manager, Bechtel Petroleum, Chemical and Industrial - West March, 1994.*

The Bechtel Group was founded by Warren Bechtel nearly 100 years ago. By the time the company was incorporated in 1925, it had already completed numerous large projects, including the Northern California Highway and the Bowman Dam and had established itself as the West's largest construction company. The organization has continued to grow while remaining a private company under the leadership of the Bechtel family.

Today Bechtel is one of the largest engineering / construction companies in the world. In 1993 its 21,000 employees worked on projects in 68 countries achieving revenues of more than \$ 9 billion. As further indication of the companies size it is estimated that it has been responsible for the design and construction of 50,000 miles of pipeline with a value of more than \$20 billion.

The organization has offices throughout the world and currently provides engineering, procurement, construction and financing services to customers, both public and private with a wide variety of interests and concerns. The company is divided in to a number of different divisions, as illustrated by fig. 1. This cases study will concentrate on the marketing activity at Bechtel Petroleum, Chemical and Industrial Company (BPCI).

## **The Importance of Marketing at BPCI**

BPCI make a distinction between marketing and business development. Marketing is considered to be the more strategic activity, responsible for developing strategies and providing support and direction to business development personnel. Business development is considered to represent the implementation of the strategy, in other words the sales activity. Note: for the purposes of this case study the term marketing will be used to refer to both these activities, unless otherwise indicated.

Marketing has been considered important at BPCI for many years, although, in the last 5 - 10 years it has received steadily increasing emphasis. One of the reasons suggested for this is that marketing was sometimes seen as somewhat of a distraction from the companies real business of designing and building things. In addition the status of marketing within the company was not enhanced by the fact that many of the personnel involved with it are of a non-reimbursable nature.

Currently marketing at BPCI is seen as a critical aspect of the business. However, the organization understands that it is only one of

many components in a business, and as such is not considered any more important than the other components. Indeed the organization's success is still considered to be largely the result of its global reach, technical expertise and operational excellence. The increasing emphasis is a necessary reaction to the changing environment. A reduction in demand, resulting in very high levels of competition and extreme pressure on fees has led to an increased requirement for marketing expertise.

### **What does marketing achieve ?**

Currently marketing provides the organization the ability to achieve the following:

- 1) develop and maintain customer relationships
- 2) lead strategy for the development of proposals that are responsive to customers needs, highlighting areas of differentiation.
- 3) lead project teams in presentations that effectively illustrate areas of differentiation.

- 4) **lead commercial strategy and contract negotiations that assists the achievement of financial objectives.**

Although the organization perceives that their marketing efforts are fairly comprehensive and are becoming increasingly effective it has sighted several areas for improvement. The company wishes to broaden its base of customers, specifically to attract more medium sized customers. Examples of companies that BPCI has identified as desirable are Amoco and Dow.

### **The marketing strategy development process**

The choice of service offerings is made at BPCI by its **customers**, in other words the organization responds to the environment. This is not done in a completely uncontrolled fashion, BPCI reviews all RFP's and can decide that a project does not fit sufficiently with the company's objectives or is otherwise unacceptable. These decisions are made during "screening meetings", in which all project opportunities and the most probable methods of approach are reviewed. These screening meetings are held on a weekly basis.

The points of differentiation

that are to be emphasized in each response are chosen by the responsible business development manager. This decision is made at the very first (or kick-off) meeting of the team that will prepare the response. It is considered very important that the chosen area of differentiation is similarly emphasized during any project presentations to the customer.

The services that are currently offered by BPCI are considered by the organization to be; engineering, procurement, construction and financing. The latter one, financing, often acts as a catalyst for the award of projects involving the engineering, procurement and construction services. The organization's ability to take an equity position is often a critical point of differentiation, since currently many of BPCI's customers are by no means cash rich. The organization will only take an equity position in projects that have a satisfactory expected rate of return.

The value that BPCI feels it provides its customers is:

"solutions to their facilities requirements. BPCI essentially provides a pool of resources (experience and expertise) that resides in its employees."

The marketing strategy at BPCI is an integral part of the business strategy. The one can not be prepared in isolation from the other. It would be impractical to allow the finance people to set performance objectives such as volume and profitability without consulting the marketing department. In the same way the marketing strategy must be formulated within certain constraints or in compliance with the corporate objectives, otherwise the organizations may stray too far from its chosen course.

BPCI considers business development / sales to be a function in its own right. While the same group is responsible for both marketing and business development, they are seen as distinct (the distinction having been made previously).

Additionally at BPCI there is another group of people that may also be considered to be engaged with marketing. It is the Technology Group, see fig. 2. It assesses customers and makes a note of any abilities that they do not currently have but might find of value. They are then responsible for doing research in the promising areas that may have applications in the petrochemical markets. The results of the groups work can often be offered to

customers and represents additional areas of differentiation. This group effectively provide support to the business development people since they identify areas of concern to the customer and identify potential areas of differentiation.

### **Service**

BPCI represents one division of one of the largest construction service organizations in the world. The organization as a whole is divided as illustrated by fig. 1, and the division in question provides a full range of design, procurement, construction and management of projects for customers in oil, chemical and industrial organizations. In order to more fully appreciate the breadth of services offered it will be useful to consider the manner in which the company segment their customers.

### **Segmentation:**

The following provides a list of the major segments served by BPCI:

- 1) **Bechtel Petroleum:** including the design and construction of oil production and drilling platforms.
- 2) **Chemical:** including the design and construction of a broad

range of chemical manufacturing and processing facilities and process design and development.

- 3) Industrial: including the design and construction of manufacturing facilities, e.g. pulp & paper and pharmaceutical plants.
- 4) Refining: including the design and construction of refineries and advanced process design and control systems.
- 5) Pipeline: including the design and construction of oil and chemical pipelines.

The segmentation within BPCI is a result of customer demands. The customers perceive that the different phases of their operations require different service abilities and hence should be served by groups specialising in these areas. In addition although a variety of contracts are utilized in each segment e.g. cost reimbursable, lump sum and lump sum turnkey, there are certain trends. These trends are largely related to the complexity of the projects, and hence the chance that alterations will be made to the design.

### Pricing

Prices at BPCI are developed on a project by project basis. In the case of a cost reimbursable contract they are developed by applying an overlay<sup>1</sup> to the salaries of the personnel to be involved at the home office. The total home office cost includes a share of the building rent and utilities plus a contribution to the employee benefits. The overlay is intended to cover all non salary costs and provide a margin of profit, during better market conditions an overlay of 100% was common. The total installed project price will be the sum of the reimbursable part of the construction activities (i.e. man hours and materials) and the home office cost adjusted by the overlay.

In current market conditions the area that becomes critical is the home office cost, as variations in this between companies can severely hurt competitiveness. The overlay is adjusted depending on the competition and the current market conditions. BPCI is experiencing increasing pressure on the magnitude of overlay it is able to use. This occurs as a result of the construction companies being so hungry for work that they

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<sup>1</sup> The overlay is a percentage that is added to 1. This is then used to multiply the wages of the people in the home office in the calculation of the project price.

are prepared to take on increasing levels of risk for the same or often lower levels of profit. This trend has forced BPCI in many instances to place a part of the desired overlay at risk. For example, if the market overlay is believed to be 65% then BPCI might propose an overlay of 50% and an incentive program based on performance worth another 50%, in an attempt to both remain competitive and reduce the rate of erosion of the profit margin.

In addition to the competitive pressures effecting the reimbursable contracts, a far greater proportion of projects are now awarded on a lump sum bid basis. In these cases the contractor is encouraged to become as cost efficient as possible in order to stand any chance of winning. The result being that the customer receives the lowest price and has a great deal of risk transferred from them (as in the case of a reimbursable contract) to the contractor.

### **Promotion**

Promotion is performed by BPCI in a number of ways. The simplest is in the form of preparing highly targeted responses to RFP's, using all the information available concerning the customers operations

and concerns. These responses emphasise the points that were chosen by the responsible business development manager as points of differentiation. They must also address any areas that may be perceived by the customer to be possible weaknesses. It is considered as important to provide mitigating evidence as to why any short comings are not critical, as it is to promote the areas of expertise. In this manner it is indicated to the customers that BPCI clearly understand their needs and areas of concern. Presentations are prepared and given with the same attention to detail again insuring that any possible weaknesses are addressed openly.

BPCI receives opportunities to work in two ways, the first being the receipt of a RFP and the second being the result of one of their partnership arrangements. BPCI West currently has such arrangements with 7 of its customers. These arrangements are negotiated contracts in which all commercial terms are defined for projects completed by BPCI over the duration of the contract (from 1 to 5 years). The customer provides a scope of work for each project and asks BPCI to provide an estimate of the projects cost and schedule on the basis of man hours. This estimate is

then utilised by the customer to make decisions as to whether or not the project should be undertaken. If the project goes ahead then BPCI complete the work under the terms of the partnership contract and on the basis of the estimate.

This is an effect of the downsizing that has occurred among many of their customers. There are currently far fewer mega-projects<sup>2</sup> being considered than in the past. These mega-project's characteristics included a very rapid ramp up of resources for the contractor, a very high peak involvement and then after the projects completion no further involvement. An advantage of the partnership arrangements is that it assists BPCI with levelling its work load. The company is often involved with several projects valued at between \$50,000 and \$100 million simultaneously. Hence as a result of these partnerships the organization suffers less from erratic changes in resource demand. It should be highlighted that the partnership contracts BPCI has are not normally used in the case of very large projects (> \$ 100 M), these are more commonly awarded on a competitively bid basis.

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<sup>2</sup> Definition: a mega-project's cost is greater than, or equal to \$500,000,000.

BPCI perceives that its relationships with customers are extremely valuable. This is a result of the level of risk adversity among the customer organizations, i.e. they wish only to use companies which have demonstrated their abilities. It is therefore a great advantage to have worked for a company before, as then there is no question with regards to ability or being qualified. BPCI maintain these relationships by insuring that it always provides the highest quality service. I.e. insure that operations always exceed customer expectations. Additionally the organization coordinate a series of contacts between people of different levels. The company use an analogy of a zipper to describe this approach, "bringing together people of different levels and avoiding relying on contact at any single level". The whole Bechtel organization is renowned within the industry for having an extremely influential list of contacts that go to the top of many corporations and even governments.

BPCI makes contact with new customers as the result of a number of mechanisms:

- 1) as the result of a new employee having contacts in different customer organizations.



- 2) by attending conventions within the segments it serves e.g. the NPRA.
- 3) attending construction industry conventions, e.g. the ECC.
- 4) through the Technology group, who have identified a customer that has applications for one or more of BPCI's services.

In addition the company receive RFP's from new customers simply as a result of its reputation and capabilities.

### **Information Resources**

Extensive information resources are considered to be very valuable and absolutely essential at BPCI. It utilises information from a number of different sources to enable it to compete effectively.

It creates and maintains comprehensive project files that greatly facilitate its ability to cost jobs accurately. This in turn allows it, when combined with the understanding of the competitive environment to develop accurate profit forecasts that enable it to assess the varying attractiveness of different projects. After the contract has been awarded the company utilise

extensive project controls in order that the budgets proposed by the estimates are adhered to. Currently profitability is at a very low level as a result of the very soft market environment, although it is also understood that there are considerable variations between different customers and specific projects.

The organization has a highly sophisticated customer data base, containing information regarding all the work previously completed, who the key contact people within the customer organization were and who was involved on BPCI's behalf. The information is available across the world and each business development office is "on line" and has all of its communications computerized and added. The information is consolidated on a regular basis with annual reports being produced and distributed among those involved with marketing and business development. One observation that was made of the system is that some of the business development personnel use it more than others, although consistency of use is improving. One criticism of the system that is sometimes made is that it can be frustratingly slow.

Competitor tracking is also done at BPCI, although it is fairly

informal. The organization feel that it operates over such a broad range of segments and geographic areas that it can assess sufficiently accurately how its competitors are performing. One good indication that is easily tracked is the advertisements for jobs, since these provide an instant signal as to actual demand relative to capacity among the competition.

Another area that is considered important by the organization is its understanding of the environment in which it operates. It maintains formalised reports on activity within each of the segments served with respect to significant trends or changes in key operating procedures. One of the potential problems of this activity perceived by the organization is that it is sometimes difficult to update the information as frequently as is desirable. The result of infrequent updates is the introduction of a delay between changes in the environment and the organization formally addressing the change. Hence the organization is interested in minimizing this delay and effectively speeding up communication.

### **Who is involved with marketing at BPCI**

Marketing within BPCI is done by a number of different groups. fig. 2 provides the structure of the division and illustrates that it is broken in to five main sub-divisions, with all except the Technology Division having an exclusive business development staff. For example the Petroleum and Chemical West (P&C West) division has a VP and Manager, Mr. G. Friddle who heads up the business development function. He in turn has a staff of 12 people, comprising three business development managers (e.g. Mr. McBride), three other support staff and a group of six people responsible solely for preparing responses to RFP's.

This group are principally responsible for maintaining customer relations and for finding, screening and developing responses to RFP's. It is also involved with finding new customers and developing the group strategy, although this activity is supplemented by the Technology Group's activities. As was mentioned before the Technology Group look for, research and then promote areas of process development that may be beneficial to customers within BPCI's markets. In many respects this group does more in the way of business

development than the groups of that title.

Although the culture at the Bechtel organization is one of delegating authority downwards, the feeling is that the people involved with marketing and business development have a great deal of responsibility but often somewhat less authority.

The people involved with marketing at BPCI come mainly from two sources, other organizations and from procurement. Among those involved, very few have had any professional marketing training, the others having been transferred from a mixture of operational disciplines. However it should be highlighted that the people responsible for preparing responses have mostly technical backgrounds (in the case of BPCI West they are predominantly chemical engineers).

The organization firmly believes that it would benefit from having more people with more experience and a greater understanding of marketing. In particular for dealing with the more senior executive representatives of its customers. BPCI does not believe that it is a prerequisite for the people involved with marketing to have a chemical engineering background. Indeed ideally, the organization would

like to have people from both the operations side of the business and from their customer groups. As the company feels that this would give it a good balance between understanding the customers requirements and any operational limitations that exist.

### Control Mechanisms

BPCI utilise a number of controls on their marketing process. it uses company forecasts of profitability as a factor in the decision as to which RFP's to respond to. However in todays market environment it is a less obvious factor since profitability is severely restricted in almost all areas. The question that is asked at BPCI is: "How long will the company continue to bid projects with such low or even no margin ?" The answer is unknown, but it has continued for the last 2 years.

BPCI will reject work for any one of a number of reasons, profitability is one but as was just mentioned it is currently less of a factor. Other reasons for rejecting work include:

- 1) the organization feels that it is being asked to bid simply as a matter of the purchasing rules

within a company and the decision has already been made.

- 2) that it is unqualified to do the work. Even if the company has done other work for the customer. It is potentially damaging to both the relationship and to the entire company's reputation.
- 3) a lack of trust for the responsible member of the customer's organization.
- 4) ominous contract terms, e.g. BPCI refuses to be held responsible for consequential damages in any contract.
- 5) ethical reasons.

The underlying principle is that projects are assessed and subsequently chosen on a risk vs. reward basis.

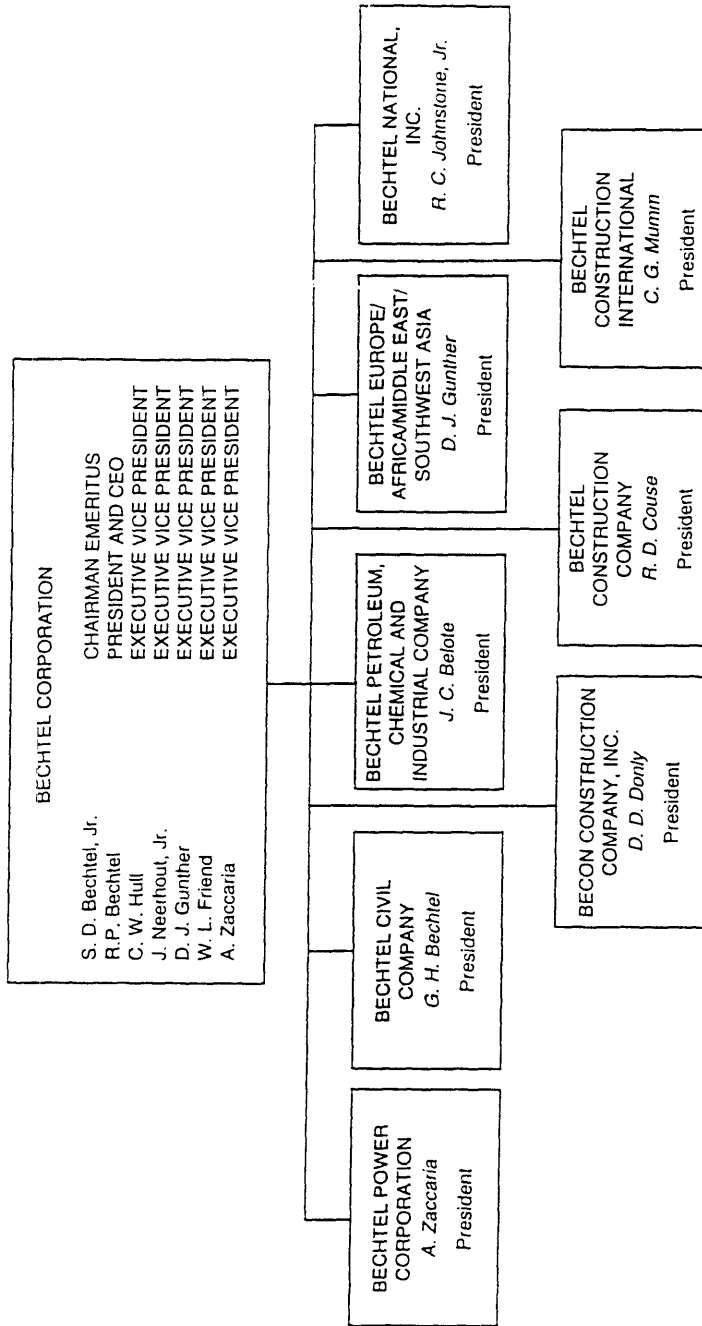
Expenditure on marketing activities is very carefully controlled. The nature of the business is such that putting together proposals is very costly. The departments have budgets that have to be adhered to and hence must decide where the money can be spent in order to

provide the maximum return. The distribution of funds between projects is decided during the screening meetings at which all the project opportunities are discussed.

The cost of preparing proposals is a major concern at BPCI. These can vary considerably from customer to customer and project to project. The cost is very much a function of the type of RFP. It can be either simple check / cross answers to a list of questions or it may involve lengthy responses to a number of in depth questions. The cost associated with each is essentially the man hours required to complete the response. In some instances the expense associated with the proposals can be billed, although this is very rare.

The budget amount for the preparation of proposals is obtained by looking at historical data and looking at those proposals being considered. In the last 2 years BPCI West has not declined to respond to a RFP because of the estimated cost of the response. The cost is very important in the case of a lump sum bid, since here it is not the risk / reward argument that is as critical as the marketing budget for the year. It must be fully understood that there is a limit to the number of responses that can be prepared.

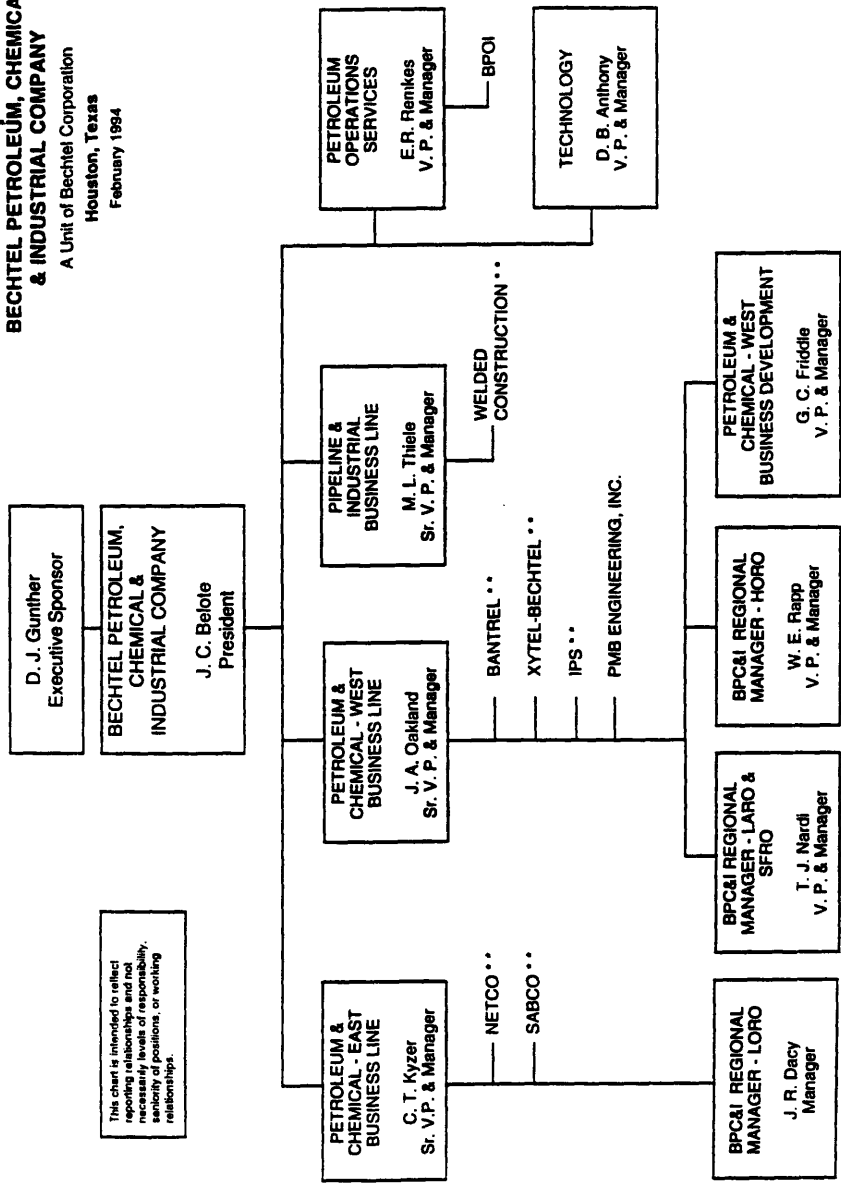
**BECHTEL CORPORATION**  
February, 1994



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**Figure 1. An Illustration of the Bechtel Corporation**

**BECHTEL PETROLEUM, CHEMICAL & INDUSTRIAL COMPANY**  
 A Unit of Bechtel Corporation  
 Houston, Texas  
 February 1984



This chart is intended to reflect reporting relationships and not necessarily levels of responsibility, seniority of positions, or working relationships.

\*\* Joint Stock Company

**Figure 2. An Illustration of Bechtel Petroleum, Chemical & Industrial Company**

# **MARKETING CASE STUDY OF** **BROWN & ROOT INCORPORATED**

## **Introduction**

*This case study was prepared from an interview with Mr. G. Wittie, Vice President and Director of Business Development, Brown & Root Services Corp. March, 1994.*

Brown & Root Inc. was founded in 1919 as a road building contractor in Texas. As the company grew it started to diversify and having completed construction of a dam in the 1930's it continued to offer increasingly broad based, heavy civil engineering services. The next area of growth was very much a function of its location. With its base in Texas, the development of the oil industry provided Brown & Root with an opportunity to further extend its capabilities. It moved into the construction of oil refineries, pipelines, off-shore drilling and production platforms and other petrochemical facilities and became (and still is) one of the major suppliers to the oil companies. Indeed Brown and Root Marine has been involved in 35% of the worlds off-shore production capacity and has included construction of the worlds first platform out of sight of land and the worlds tallest platform (greater in height than than the Empire State Building N.Y.). The organization also got involved with the design and construction of power stations and is now one of the principle providers of power generating facilities world wide, total production from its facilities is equivalent to approximately 7% of North America's generating capacity or 48,000 megawatts.

Today Brown & Root Inc. is a wholly owned subsidiary and constitutes the engineering and construction arm of the publicly held Halliburton Company. It is one of the worlds largest international providers of engineering and

construction related services. It employs more than 40,000 people, performs work in over 60 countries and has revenues of between \$ 3.0 B - \$ 4.0 B. In the region of 90% of the work is completed for repeat customers and the majority (60% - 70%) of work is awarded on the basis of competitive bids. Fig. 1 illustrates Brown & Roots relationship to the Halliburton Company and the seven different business units that make up the organization.

**The Importance of Marketing at Brown & Root Inc.**

Brown & Root historically had little need for very extensive marketing and business development activities. The low level of concentration in the marketing area resulted from the company's continued growth up until the mid 1980's. It successfully responded to requests for proposals from many different customers across its very broad range of services. Customers approached Brown & Root and the organization had a plentiful supply of new opportunities, as a result there seemed little point in developing a very formal marketing department.

Subsequent to the business down turn in 1986 the organization decided that it had to become far more

sophisticated with regard to its marketing activities. The change in emphasis on marketing at Brown & Root has been very dramatic, and although it is felt that the organization is not yet fully market driven, there is a definite consensus that it needs to become so. As only in this way will it be able to remain competitive in the international arena of engineering and construction.

**What does marketing achieve:**

Brown & Root perceive that currently their marketing efforts are still in the early stages of development, i.e. they achieves sales. Although the organization has made a commitment to enhancing its marketing capabilities it appreciates that the transition will take some time.

The organization has established that the goal of marketing in the future, should be to develop a coordinated program that achieves the following, while simultaneously maximising profitability.

- 1) consistently add quality backlog in those areas defined by the strategic marketing plan.
- 2) continue to build the



organization's image in order to maintain the respect of its current customers and encourage the approach of new customers.

### **The marketing strategy development process**

Marketing strategy development at Brown & Root was, until more recently fairly unsophisticated. The organization found it was sufficient to simply respond to the markets which it served. The strategy was the result of market conditions at any given time and as changes occurred the organization simply reacted.

Now each of the business units has an annual planning cycle during which the environment is assessed and any alterations to the marketing strategy are discussed and implemented as appropriate. It is perceived that the process remains of a more evolutionary than revolutionary nature, and, that this is largely a result of the manner in which planning was done previously. It is an excellent example of organizational inertia, that is common in many companies.

Each business unit decides during its annual planning cycle the areas that are going to be promoted

as points of differentiation. It is important to understand however, that where the emphasis is placed, is entirely dependent on the individual customer and project. The organization can and does tailor its response depending on its understanding of what each customer most values, thus maximising the probability of success.

Both strategic planning and decisions concerning differentiation are made by a group, consisting of both marketing and engineering personnel. In this way, it is believed that the organization can focus on the issues and concerns of its customers while remaining aware of what is operationally feasible and practical.

The value that Brown & Root feel it provides its customers is; an improved level of comfort and security, bearing in mind the enormous expense and complexity associated with many of the projects.

The value is founded on the 75 year history of the organization and its "can do" philosophy. Brown & Root have never failed to complete a project, and as such offer not only proven ability but, absolute reliability. This ability is not restricted geographically, as the organization has offices across the world and at any given time is working in up to 60

countries. To complement its operational ability it provides a high degree of financial stability (being part of the \$ 7 B Halliburton Company), i.e. the organization has both broad shoulders and deep pockets.

The marketing strategy at Brown & Root is very closely linked to the business strategy. The high degree of linkage is partly a result of the two plans being formulated by the same group of people. The marketing strategy is viewed as being the means by which the objectives of the business strategy can be achieved. The plan is devised to coordinate all the activities that make up the marketing process including basic research, business development and sales.

### Service

Brown & Root provide an extremely diverse set of services to a very broad base of customers. These services span from conceptual planning and feasibility studies through detailed design and engineering to fabrication and construction. They also offer a full range of construction and program management services. The precise nature of service offered is very much dependent on the customers area of

business and as such it is useful to consider the various segments that Brown & Root serve.

### **Segmentation:**

Segmentation at Brown and Root is of critical importance as a result of the diversity of their customers. The organization segments the markets by considering the different types of service required by its customers.:

- 1) Energy Services: including the design and construction of oil production and drilling platforms and pipelines. This segment represents between 30 & 35% of volume.
- 2) Power / Manufacturing and Process Industries (MAPI): including the design, construction and maintenance of both nuclear and fossil fuelled power stations. Also including work in the manufacturing industry, such as pulp & paper. This segment represents between 15 & 20% of volume.
- 3) Petrochemical: including the design and construction of oil refineries and other chemical

plants. This segment represents between 30 & 30% of volume.

- 4) Civil Engineering: including the engineering and construction of transport and waste-water infrastructure and other buildings. This segment represents between 10 and 15% of volume.
- 5) Environmental: involving clean up activities. This is the newest segment and currently represents between 5 & 10% of volume.
- 6) Brown & Root Services Corp. (BRSC): including management, maintenance and some construction work for U.S. and international governments. This segment represents between 10 and 15% of volume.
- 7) Industrial Services: including the operation and maintenance of plant facilities to clients around the world. All work in this segment is consolidated into the other segments.

a specialized business unit as illustrated by Fig. 1.

The driving force behind the segmentation is two fold. It is both in response to the customers requirement for specialization in particular fields and to enable the organization to group distinct capabilities. It is thus both customer and operationally driven. It should be highlighted that some customers require a range of services that extends beyond any one segment. In these cases they can be served by more than one of the business units. By dividing the services in this way it is hoped that contracts won by any single business unit may provide opportunities for the other units. It allows the customer to choose between having Brown & Root perform the whole project or just one part.

The choice of segments served is primarily a function of geography. The organization's location provided exposure to certain opportunities. Firstly the road building and infrastructure projects and then the development of the oil industry. In each case the opportunities tended to snow ball giving Brown & Root access to increasingly broad ranged opportunities. As the projects became

Each of these, segments is served by more and more diverse the

organization responded by expanding its service offerings.

More recently Brown & Root has continued to diversify in an attempt to offer increasingly full line engineering, management and construction services. The most recent areas of development include BRSC and the environmental group. The important point to note is that the business units each provide opportunities for each (a kind of synergy) other as there is a considerable amount of overlap among customers.

### Pricing

Prices at Brown & Root are developed on the basis of the estimated cost of work and a target level of return. The target level of return is calculated in a methodical manner that assess the segment, type of project and the risk involved. It then gets skewed as a result of the competitive nature of the market place. The philosophy at Brown & Root is that the pressure on pricing of projects must be relieved by improvements in operational efficiencies, hence the margins may be maintained.

Over the last three or so years the competitive element in pricing projects has become a greater and

greater consideration at Brown & Root. The organization has found that the prices of projects have been falling at a faster rate than it is able to compensate for operationally. The organization does not feel that it is being asked to provide steadily increasing levels of service, just that the service must be provided at continually falling prices.

### Promotion

Brown & Root promotes itself in a number of different ways. It has developed an organization wide program of account management. This is a result of the manner in which the organization is set up (i.e. the cross customer business units). It used to be the case that business development personnel from different business units would call on the same customer in an uncoordinated manner. This could give the customer an impression of lack of communication between the parts of the organization and was also an inefficient use of manpower.

The new program has provided coordination so that the image presented to the customer is seamless in nature. The business units provide a pool of resources that may be mobilised individually or in combination to provide the required

service. The result of the program is a much more consistent and customer based approach to contacts. The organization wants to promote itself as a provider of "one stop shopping" for its customers, having all the services they might require to complete their projects.

Another area that is being developed is that of senior executive level contact. That is to say an account champion is chosen to maintain regular contact with a more senior member of the customer organization. In this way the organization receives both valuable information that may provide an opportunity for one or more of Brown & Roots business units and a possible point of influence on the decision making process. One important point to highlight here is that there are very strict regulations concerning this type of contact with government personnel. As such in some instances this activity is severely restricted in particular for BRSC.

Both of these activities illustrate the importance place on Brown & Roots customer relationships. They are considered a great asset and every effort is made to maintain them. The relationships provide the opportunity to keep customers up to date with new

capabilities and to promote programs such as the Quality Improvement Process (or QIP, that indicate the organization's dedication to constantly enhancing their services).

The majority of work that is awarded to Brown & Root is the result of them receiving RFP's. In some instances, for example in the case of BRSC, the only vehicle available to the company to illustrate its capabilities is a written response (i.e. it is not unusual for there to be no personal contact with the customers organization). For this reason a great deal of time and effort is put into the preparation of these responses in order to maximise the probability of success. Another characteristic of some of the work is the great length of time that proposals may be considered for and continue to have their specifications adjusted or extended in some way (in one case the process continued for 5 years).

In addition to nurturing relationships between contracts Brown & Root take performing work very seriously. The opportunity to impress the customer of the value being provided to them is one that must be capitalised upon. The best means of promotion for the organization is to insure that every project is completed with the

customer expectations being exceeded not simply met. The value associated with this being the increased probability of obtaining the chance to bid for future work and possibly with a reduced level of competition, since the ability has been proven.

“New” or previously unserved customers are becoming increasingly difficult to find within the U.S. due to the penetration that has been achieved over the years. The best opportunities for finding new customers are found overseas. Internationally Brown & Root is represented in one of 2 ways:

- 1) by a business development representative assigned to certain areas.
- 2) by a regional office that has both some engineering and contracting capability.

and it is through these channels that new customers are identified and approached.

### **Information Resources**

Brown & Root consider the collection and distribution of information to be an important part of its marketing activities. The business units create files for each

project undertaken and constantly update them until completion. BRSC have some management / service projects that can be ongoing for 20 or more years, although they are will be rebid every 3 - 5 years. The company keeps very comprehensive files on these projects, as it is essential for it to track them over very long periods in order to record performance. These records are stored and greatly assist the organization when making estimates of the costs and hence profitability of projects by segment, customer and type during the preparation of responses.

The organization as a whole maintains customer files, although in addition many of the business units keep their own that contain the specific information considered necessary. The petrochemical unit for example have very comprehensive customer files, to insure it remains up to date with each companies activities and the work that has been completed for them previously. The level of detail in these files is strongly dependent on the individual units customers. At the Petrochemical unit, it is essential that the files are highly detailed as their customers demand a high degree of understanding of their operations.

Brown & Root also consider it

very important to remain up to date with trends in both the individual segments and overall economic activity. The information is obtained in a number of ways including attendance of various lectures and seminars for the industry groups served, as a result of its affiliation with universities and by identifying, then sending bright individuals through different academic programs. This information provides forewarnings concerning major changes in industry activity allowing it time to prepare.

Another area of interest to Brown & Root is the activity of their competitors. The manner in which this information is collected has changed in the last few years. The information used to be gathered for all business units by the organization's Information Resource Center (IRC) utilising electronic media searches. This group published business unit specific books providing detailed information concerning the activity of their competitors over a given period. Currently the organization performs competitor research but in a much less formal way and much more responsibility is given to the employees of the business units. They are expected as part of their job to remain abreast of the activity of the

competition.

The information at Brown & Root is a mixture of both computer based and paper based files. Although there is a definite desire to computerise all of the information a fully integrated system is as yet not installed.

### **Who is involved with marketing at Brown & Root**

The marketing activity at Brown & Root is performed by two groups of people. The first is a central or organization wide group that is responsible for the production of all promotional material such as company brochures and magazine reprints. The second group, that is responsible for the majority of the activities is the marketing department within each of the business units.

Each business units marketing staff is headed up by a Director of Business Development which have a number of support staff responsible for different activities. For example, the marketing department of the BRSC consists of a director of business development / vice president and fifteen additional support staff. The director is responsible for formulating the marketing strategy and both developing and controlling

the marketing budget. The support staff are divided among three main areas:

- 1) Business developers / salespeople.
- 2) Technical people responsible for the preparation of proposals.
- 3) Support staff responsible for research activities and generally providing assistance to the other members of the group.

In addition to the people specifically assigned to the marketing departments other senior executives become involved, in particular, as was mentioned earlier with the maintenance of customer relations. Although they also often are involved with strategy formulation and customer negotiations.

The business unit business development departments at Brown & Root have considerable levels of authority and responsibility. At BRSC the director of business development reports to the senior vice president and is accountable to the president of the business unit.

The people involved with

marketing at Brown and Root come primarily from operations backgrounds <sup>1</sup>. It is a concern of the organization that all too often they have inadequate training or understanding of marketing. It is believed that the personnel involved with the marketing task should come from a mixture of three backgrounds.

- 1) Customer organizations
- 2) Operational backgrounds
- 3) Marketing and business development backgrounds

A combination of these types of people would provide a much broader base of knowledge and result in a more effective and efficient marketing organization.

### Control Mechanisms

Brown & Root have established and enforce several control mechanisms on the marketing activities. It uses the information collected about expected profitability's in order to weigh the relative attractiveness of different project opportunities. This provides the organization with a means of

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<sup>1</sup> Note: interestingly at BRSC a number of the marketing personnel are retired military officers.



prioritizing them and then distributing its resources appropriately.

The organization certainly reject work, and do so for any one of a number of reasons. The most common ones include:

- 1) Unacceptable expected profitability.
- 2) Insufficient availability of resources.
- 3) Lack of knowledge about the customer.
- 4) Lack of knowledge about the projects requirements.
- 5) Lack of compliance with the strategic objectives.

In this way the organization hope to minimise their exposure to risk and obtain the highest profitability from its available resources.

Marketing expenditure is controlled by the directors of business development, who receive a certain limited budget. They are responsible for the distribution of the funds between different customers and projects. They have the authority to, and do sometimes "pull the plug" on

projects if they feel that the viability is in any way questionable. As an example BRSC stopped work on the development of a proposal after having spent \$1.5 M. It is important to understand that some of the proposals can continue to be refined over very long periods of time as was mentioned previously, hence expenditure can very easily reach considerable amounts. High expenditure to date is not seen as a valid reason for continuing to pursue projects that no longer appear "real". It is far better to use the money in an area that has a higher probability of success.

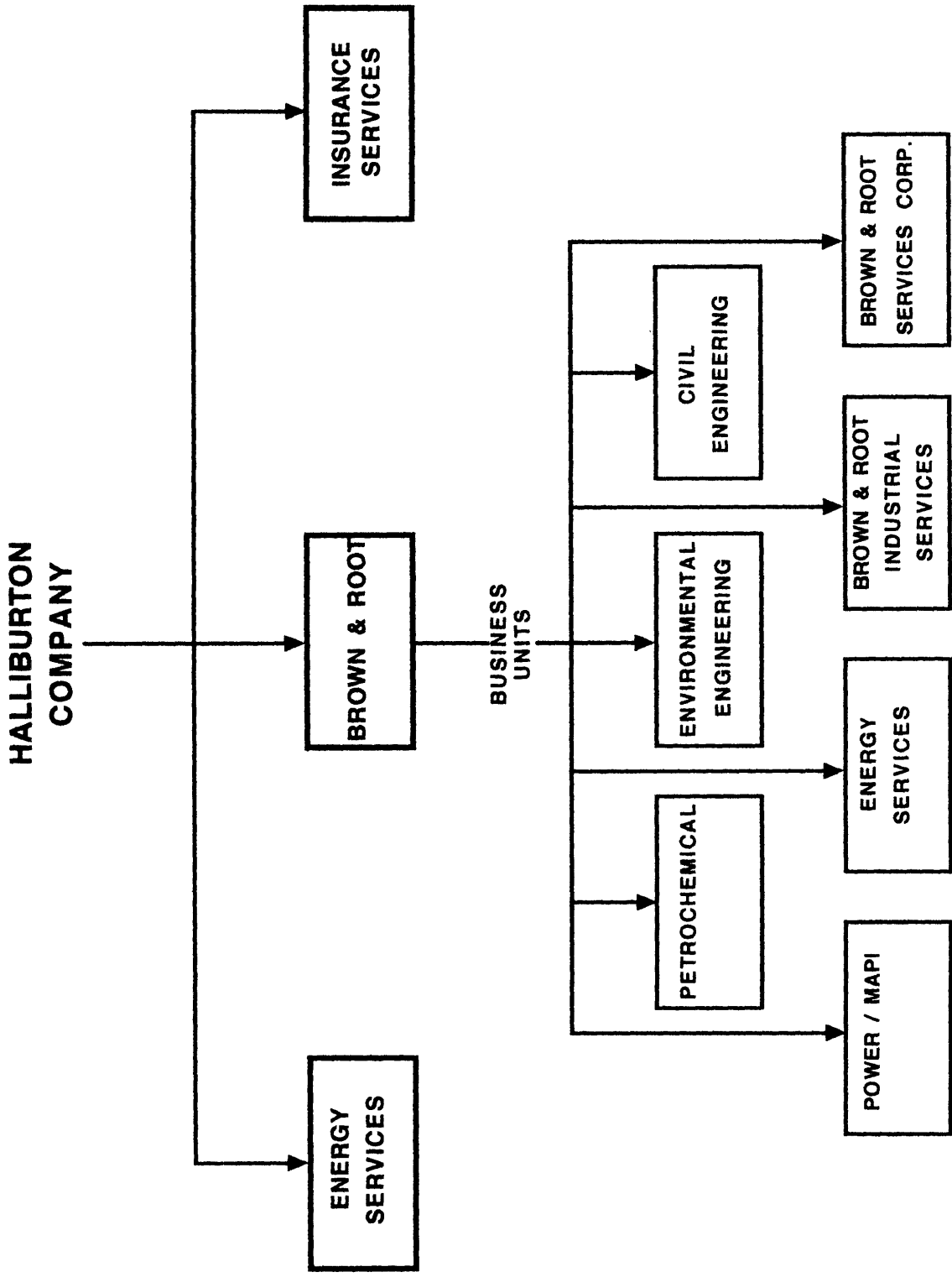


Figure 1. An Illustration of Brown & Root, It's Relationship to the Halliburton Company and it's seven business units

# **MARKETING CASE STUDY OF THE GEORGE B.H. MACOMBER COMPANY**

## **Introduction**

*This case study  
was prepared from  
an interview with  
Mr. J. Henderson,  
Vice President -  
Marketing, George  
B.H. Macomber  
Company  
March, 1994.*

The George B.H. Macomber company was founded in 1904 by George Borden Harrington Macomber in Boston, Massachusetts. its first project was for the construction of the Post Office Square building in the vicinity of the city's financial district. The building was of particular interest at the time as it was one of the first examples of steel framed construction in the U.S.. The company has been headed up by a succession of Macomber's and it is currently under the control of John D. Macomber, the great grandson of the organizations founder.

The company now operates across the New England area, has employees approximately 100 employees and completes between \$ 100 m and \$ 120 m of work annually, see fig. 1 for the organizational structure. It offers general contracting services to those clients that demand high levels of quality and whose tolerance to deviations from schedule, cost and design are low. For example, the company works for organizations in the health care, biotech / process and institutional markets. As a result of the types of clients and projects the company pursues, the emphasis is on negotiated forms of contract, currently representing approximately 75% of volume. It should be noted however, that during the later part of the 80's and in to the early 90's market conditions were such that the situation was very different. During this period many of the customers that had traditionally

favoured negotiated forms of contract switched to bidding projects, hence the proportion of negotiated projects was considerably less. Of the total annual volume, in the region of 60% is completed for repeat customers.

### **The Importance of Marketing at Macomber**

There has been a radical change at Macomber over the last few years with regard to the seriousness with which marketing is approached. Marketing has been transformed from a very low key area of the business to its current position, as one of the most critical. During the same period, the way in which the process is performed has undergone a similarly major change. Marketing used to be carried out in very diffuse, hit or miss manner (analogous to a shotgun approach), projects were taken as and when opportunities arose. Now the company utilises a much more highly focused (or rifle like) approach in the way in which it solicits work, concentrating in a smaller number of well defined areas.

Marketing is viewed as "critical" by both John Henderson (vice president- marketing ) and John Macomber (CEO). However, they perceive that many of the other employees, as yet do not share their

opinion. One of the reasons sighted for this, is that the importance of marketing is very often obscured. That is to say, there can be a considerable delay between the deterioration of marketing effectiveness and a drop in bottom line performance<sup>1</sup>.

It is believed that marketing efficiently and effectively are the key to the achievement of the organization's long term objectives, to sell high value construction services and be successfully proactive in obtaining work. It is also hoped that in the process of becoming more market oriented that the entire firm can be educated or "coached" into understanding the criticality of marketing to the organization's success.

#### **What does marketing achieve:**

At Macomber it is felt that marketing provides two distinct benefits to the the organization.

- 1) a foundation for the process of corporate strategic planning.  
Understanding the environment in which the company operates

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<sup>1</sup> Due to the size and hence length of time of many of the projects undertaken by Macomber and other similar construction companies this delay can be in the region of 6 - 12 months.

and tracking changes and trends.

- 2) the information required to prepare the most effective and competitive responses to requests for proposals.

In addition it has provided a catalyst that has encouraged an attempt by senior management, to understand its own employees issues and concerns, i.e. what they feel is important.

The company is pleased with the progress to date, in its development of the marketing process. However, it recognises that the transformation is, as yet, incomplete. Macomber believes that marketing should, in the future provide the following:

- 1) drive the company in directions where current uncertainties provide a sufficient barrier to deter it.
- 2) the challenges that will continue to give the employees an environment that will stimulate learning, test their abilities and thus maintain a high level of interest and enthusiasm.

The second goal, is in some ways a result of the fundamental restructuring of the company including a reduction of the number of middle managers that occurred in the last few years <sup>2</sup>. There is a strong desire to promote a feeling of stability and an understanding of the company's direction among the employees.

### **The marketing strategy development process**

The marketing strategy at Macomber is the result of a thorough formulation process. It involves both the VP- marketing and the CEO in a series of discussions concerning both company objectives and the opportunities that exist in both the markets it currently serves and areas in to which it could move. The decisions are made drawing upon the whole company's experience and knowledge base.

The areas of differentiation that are to be promoted to the customer are chosen on a project by project basis by the VP- marketing in consultation with the CEO. The decision is made by assessing all the available information about the

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<sup>2</sup> In 1990 John, his brother George and sister Grace bought the company from their Father and John took over from his as CEO and President.

clients primary concerns and the characteristics of the project in question. Care is taken to insure that the decision is consistent with the company's previous experience and hence established areas of expertise.

Both the overall strategy and the areas of differentiation are reviewed continually in response to the highly varied nature of the clients and the dynamic nature of the markets. The review process is not seen as an opportunity to fundamentally change the company's direction but as a means of constantly narrowing the focus (recall the "rifle approach") while maintaining the ability to respond to changes in the market as occur.

The service Macomber feels it provides the customer is;

"helping the customer to obtain the best value from their facilities by making the best decisions at every stage of the project given the unique set of requirements."

In this way Macomber hopes to be seen as instrumental in its customers' success.

Another indication that marketing is critical to the organization is that it makes no

distinction between the business and marketing strategies. Macomber firmly believe that marketing is currently of the utmost importance in the construction industry and will continue to be so.

Macomber distinguish between marketing, strategic planning, business development and sales in the following way: Marketing represents the umbrella under-which the other activities are located. The differences between the components may be understood on the basis of the relative time horizon over which they should be considered. A reproduction of the diagram used to illustrate this principle by the VP- marketing can be seen in fig. 2.

### Service

The services which Macomber provides include, preconstruction planning, construction management and general contracting. The precise nature of these services vary considerably depending on the segment, the customer, and even the individual project. Hence it is important to understand the segments in which Macomber competes for business.

### Segmentation:

Macomber serves three main

segments:

- 1) Medical: including hospitals, outpatient centers and specialist clinics. This segment accounts for approximately 35% of annual volume.
- 2) Industrial: including process type facilities for pharmaceutical / biotech firms and both new corporate headquarters work and renovation of existing facilities. This segment accounts for approximately 35% of annual volume.
- 3) Institutional: Includes work for schools, universities and all “non - industrial” corporate work. This segment accounts for approximately 30% of annual volume.

Segmentation allows Macomber to separate groups of customers depending on the distinct, but broad types of services required by each. The current segmentation has developed for a number of reasons.

The first segment is the result of the company’s history. Since the formation of the company, the core

business has always been among institutional customers. The work in this area is quite different to the other segments served and has, as a result remained a segment in its own right. This area remains one of the largest of the segments today, and as such is of great importance to the organization.

The medical area is very much seen as a specialty and as such customers require a considerable amount of experience in and dedication to this area. One of the main reasons for the customers concern is that work must often be carried out adjacent to existing operational areas that must be allowed to function without disruption. Macomber has recognised this need and as a result has grouped this type of work as a segment in its own right.

The final segment, which is seen as the most attractive area for further growth, is the industrial segment. This segment includes a high proportion of very complex projects, often involving extensive piping and specialised HVAC work. Again the grouping of this type of work is customer driven, as they require the selected firm to exhibit considerable experience and expertise in this area.

The reason for choosing to

serve the listed segments is that they contain the type of work that Macomber as a company desires. The basis for this decision is that they all involve highly sophisticated and demanding customers. As a result, successful, high quality construction is valued more highly than by other less exacting groups of customers. It is believed that projects in these areas will provide higher levels of profitability and provide a continued challenge to Macomber's personnel, that was sighted previously as being an important objective.

### **Pricing**

At Macomber the pricing of projects is done on a case by case basis, and no standard acceptable level of return exists. It should be noted however, that the value normally falls between 2 and 4 %. Prices are developed on the basis of a number of factors. It is understood however, that the degree of variation practical is restricted to a fairly narrow band. This being simply the result of the current highly competitive market place. The variations that do occur are dependent on the magnitude of three principle factors:

1) how attractive the job is to

Macomber, i.e. the strategic fit.

- 2) the nature of the customer and whether there is an existing relationship hence proven level of performance or the client is new to Macomber.
- 3) how hungry Macomber is for work, in order to maintain volume, hence a steady workforce.

Macomber continues to experience increasing expectations on the part of their customers with respect to which areas of service are considered essential and which are augmented (or areas providing differentiation). This increase in service is occurring without any associated increase in the fees charged. It is hoped however, competitive environment permitting that the company will again be able to charge for these increased levels of service.

### **Promotion**

Promotion is performed at Macomber in a number of ways. Firstly it maintains close contact with those organizations that it has worked for before. This provides it a good insight into what if any projects



may be forthcoming. It also allows the company to insure that the organizations are aware of any new services that Macomber are offering that may be of benefit to them.

These relationships are considered to be highly valuable, as they form the basis for trust and an established credibility in the eyes of the customer. It is believed that the cost associated with maintaining a relationship is far less than that of losing it (with regard to future opportunities). This is backed up the very high cost of sales within the industry, including the cost of the personnel involved with the research, customer meetings and preparation of responses to RFP's and presentations.

Macomber makes a conscious effort to do an exemplary job of responding to a smaller number of RFP's, instead of attempting to respond to more opportunities in a less thorough way. As a result of this their costs are particularly high, however, the company believes the increase in their success rate more than makes up for the additional cost.

The marketing department see it as a critical part of their job to ensure that all members of the organization understand the value of these relationships and the cost

associated with the sales process. In this way it is hoped that the entire company will feel responsible for nurturing and maintaining these relationships.

Another critical aspect of the promotional activity involves the contact of local A&E firms. This provides both an excellent source of information and can lead to architect recommendations. At the very least it establishes a good understanding of each other in the event they work together on a project. The value of these relationships is that often the choice of contractor can be made as the result of the architects recommendation.

An indication of the effectiveness of the promotion at Macomber, of all the work completed, only 20% is obtained subsequent to the customer having made the first contact. The vast majority of work is completed with Macomber having consulted the customer before the issue of any RFP.

Once the relationships have been established they are nurtured in the following ways:

- 1) custodians of certain relationships are established, with the responsibility of maintaining contact and

insuring that the customer understands Macomber's capabilities.

- 2) senior executives are assigned to projects signalling to the customer the significance and the importance of the project to Macomber.
- 3) holding informal discussions, at which customers may raise their general concerns and opinions. This is not done using the telephone nor does it relate to any specific project but involves more basic communication.

New potential customers are identified as the result of information gleaned from a number of sources. Among these sources the most common are existing customers, architects and company employees. Macomber has found that the information is available, it is only necessary to know from where it can be obtained. Given this knowledge the company feels that it can effectively approach the organizations and present its capabilities and experience.

Macomber also produce a company brochure and have an

extensive library of magazine reprints and one page project descriptions. These items are intended to provide customers with further supporting evidence of the organization's capabilities. They can either be given to the customer at an introductory meeting or be included subsequently in a follow up mailing. Currently the whole issue of printed promotional material is under scrutiny at Macomber. The company is concerned that the impact of these items does not fully justify the cost. This is not to say that they will be eliminated, just that it will more carefully assess what is of value and modify the material as appropriate.

### **Information Resources**

Information, as was indicated in the last section is seen as critical in order that Macomber may most effectively approach potential customers. Obtaining accurate and extensive information about the customers operations and what are their main concerns, enables Macomber to choose the most appropriate areas of concentration and differentiation for its responses.

Macomber has paper based files on their customers and projects that it has have completed. The company is in the process of installing

a computer data base although it is unsure of the benefit that will be provided. One of the reasons sighted for not having used computers more previously is the size of the company. The information required was accumulated by various individuals within the organization, either stored on simple paper files or carried mentally and could be obtained whenever necessary.

Macomber carefully follow the trends within the segments that it operates, although this is not formalised. Again the size of the company and the area across which it operates enables the information to be distributed among the people within the organization as opposed to being compiled into a central data base.

One area that is not too closely monitored by Macomber is the performance of their competitors. It remains alert to comparisons drawn in the field by customers but does not allocate any significant resources to intelligence gathering concerning the competition. It is felt that there would be no real benefit to assigning more resources in this area and as such the company rely on what it picks up on the grape vine.

### **Who is involved with marketing at Macomber**

Marketing at Macomber is done by three people, the VP-Marketing with an additional staff member, and the CEO / President. They are responsible for both strategic planning and overall coordination of the business development and sales efforts. The marketing group is also responsible for producing the brochures, article reprints, advertising and all public relations type activities.

Sales is considered to be everyone's' responsibility, each project will involve a number of different people, depending on the customer and the type of project. The selection of the team that will work on each project is made by the VP-Marketing, in order that the preparation of the response can be as thorough as possible. This is one of the reasons that it is seen as critical for everyone to understand the importance of marketing and the contribution that they can make.

The VP- Marketing is accountable to the President / CEO and the board of directors. In addition however, as a result of the smaller size of the company there is a considerable sense of responsibility to the other employees (i.e. marketing is

responsible for positioning the company such that sufficient work is awarded, thus providing security for the employees). The performance of the marketing department is monitored, although the atmosphere at the company is such that if projects are won credit is not given solely to the VP marketing, and if performance falls short of the expectations then he is similarly not held entirely responsible.

Macomber believe the people involved with marketing need to be creative, have an understanding of both the business in general, the needs of different customers and must be able to accept the continual changes that occur in the market place. Customer requirements change and evolve constantly and it is absolutely essential that the marketing department is able to accept this and adapt. Another crucial factor in the choice of marketing personnel is the manner in which they process information. Traditional engineering type thinking can be too narrowly focused, individuals involved with marketing must be able to approach problems from different directions.

### **Control Mechanisms**

Macomber utilise sales forecasts, that are broken down by segment and then continually compare actual figures with these forecasts. As for profitability, no real standards exist, even within the same segments. As a result each project is considered on an individual basis and there are no quarterly or annual segment forecasts created. Profitability is forecast however, on a corporate level, hence the summation of all projects is expected to provide a certain level of return, only there is no previously specified distribution.

Macomber believe that an important control is the ability to turn down work if it is for any reason uncomfortable with the proposal. Some of the reasons that might cause Macomber to reject work are as follows:

- 1) poor customer reputation, for either being confrontational or withholding payment.
- 2) lack of capacity, i.e. the company would be overstretched, possibly leading to falling quality and thus a damaged reputation.
- 3) ominous contract terms,

transferring an unacceptable level of risk to Macomber.

- 4) architect has a reputation for being uncooperative, uncommunicative and confrontational.

Macomber also pays careful attention to its marketing expenditure, as was already emphasised it is well aware of the cost of sales. The company concentrates funds on activities it believes will pay off, e.g. thorough responses and does not use money unnecessarily on "gimmicks". It is currently looking closely at the amount spent on printed material (brochures and reprints) as this is an area that can consume considerable resources and not necessarily in an effective manner.

George B. H. Macomber Company  
 Organizational Chart  
 June 14, 1994.

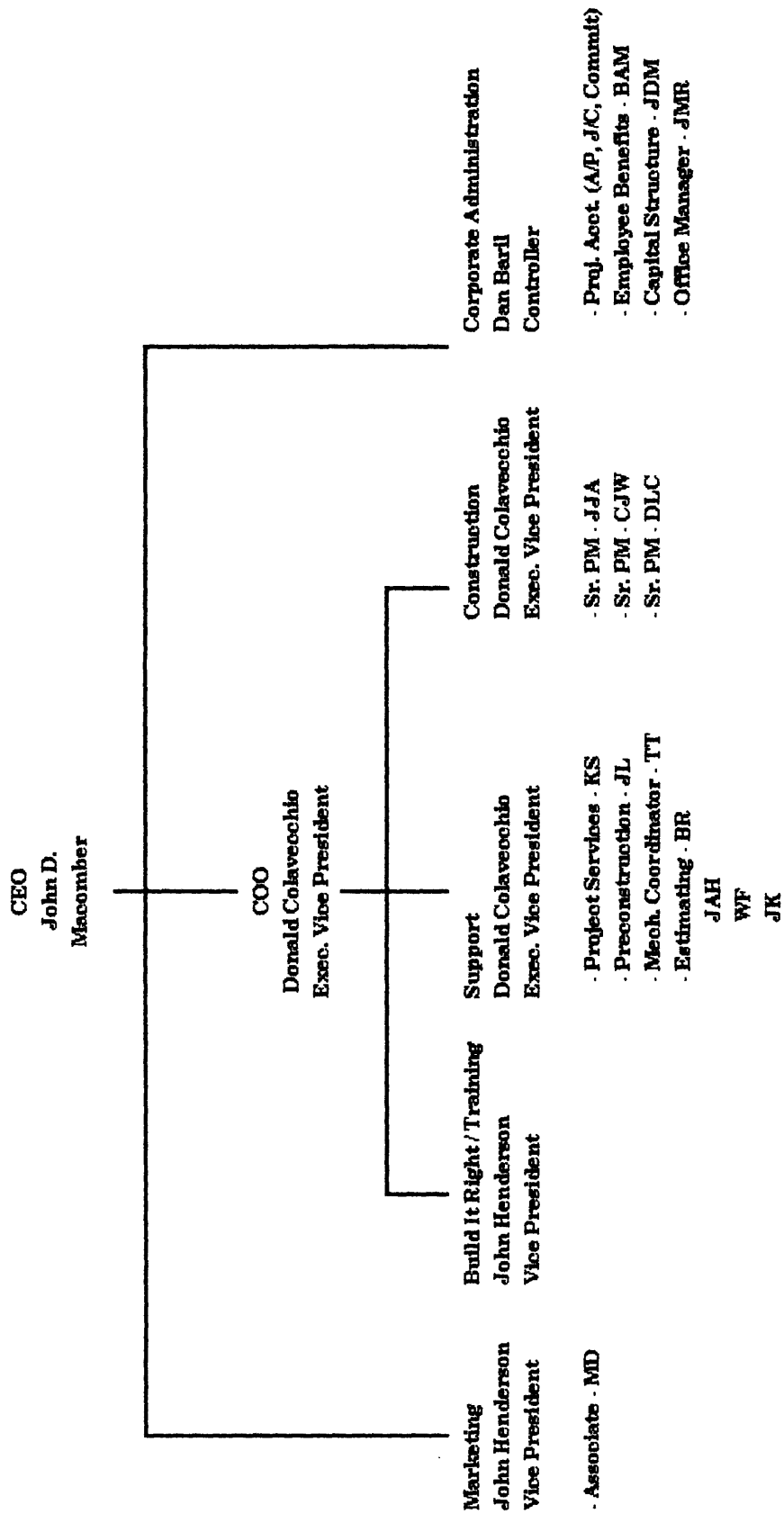
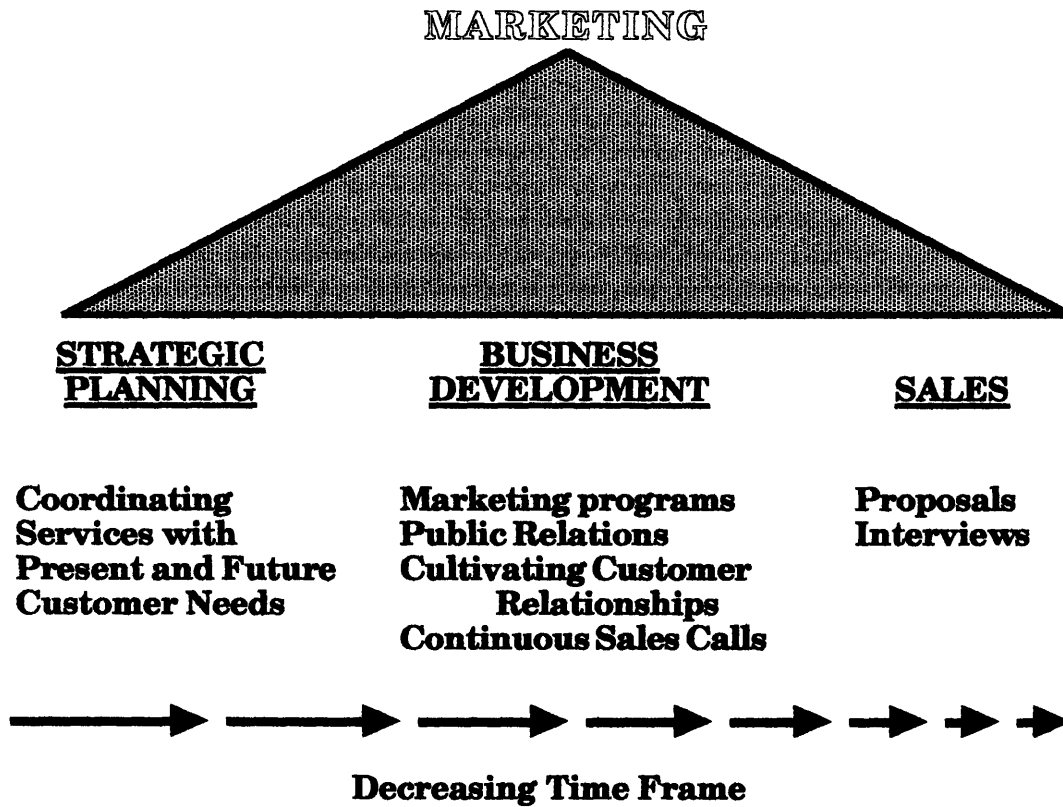


Figure 1. Macomber's Organizational Structure



**Figure 2. The Components of the Marketing Process**

# **MARKETING CASE STUDY OF GILBANE BUILDING COMPANY**

## **Introduction**

*This case study was prepared from an interview with Mr. A. Potter, Vice President - Marketing, Gilbane Building Company. February, 1994.*

Founded in 1873 by William Gilbane, Gilbane Building Company was established with the intention of achieving consistently the highest levels of quality craftsmanship in every project in which it participates. More than 100 years later the company remains privately owned, with the Gilbane family still playing an active role, as is illustrated by presence of several members of the family in the organizational chart seen in fig. 1. The company now consists of some 1200 people providing a number of diverse market segments with services ranging from project planning, through construction management to general contracting. its annual volume is approximately \$ 1.2 B.

The company has offices located in a number of locations spread across the mid and eastern areas of the United States, see fig 2. for an illustration and full list of office locations. During the past 121 years the firm has maintained its commitment to quality and integrity and is widely respected as being one of the premier builders within the regions that it serves. The maintenance of such a reputation, which was the principle aim of the company's founder has led to opportunities to perform such high profile work as the Lake Placid, N.Y. Winter Olympic facilities. A large majority of the organization's work (95 %) is completed as some form of negotiated contract and over the last several years approximately 60 % of the work has been with repeat customers.



An interesting point to note at this stage is that Gilbane has a reputation amongst its competitors for having an extremely professional and efficient marketing department.

### **The Importance of Marketing at Gilbane**

Marketing<sup>1</sup> at Gilbane is seen as extraordinarily important, however, it is only one of many ingredients within the business environment. This was highlighted by the statement that without marketing there would be far fewer opportunities but, if operational performance is allowed to deteriorate then the reputation is damaged and the marketing task becomes more difficult. Hence there is a considerable level of interaction between business functions that must not be overlooked. Gilbane strives to remain both market driven and customer oriented.

The stature of marketing within the organization has increased considerably over the last five or so years, and it is now the subject of much investigation and discussion. The very nature of the business that

Gilbane seeks to obtain (negotiated contracts) places an even greater emphasis on the need for an effective marketing function. Since so much of the work is negotiated, with the contracts often being awarded during or even before designs are finalised, it is essential that Gilbane are as prepared and knowledgeable about the customer and the projects as possible.

It is the belief at Gilbane that in many of these instances the selection of construction firm is made on more qualitative than quantitative grounds. In order that Gilbane are best positioned to respond the marketing department leverages the organization's heavily integrated matrix structure, connecting all functions within the firm. This being consistent with the idea that marketing encompasses and permeates throughout the entire business.

Gilbane has witnessed a considerable change in the environment. The industry has become much more aware of the advantages of having a greater understanding of the market in which it operates. Customers have become increasingly sophisticated and as a result increasing numbers of construction firms have begun to

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<sup>1</sup> Note: Marketing in this instance, and throughout the case, refers to both Gilbane's central marketing department and the regional business development / sales groups.

pursue negotiated contracts. These negotiated contracts require highly specialised and individually tailored responses that may only be developed effectively through an excellent understanding of the customer and his requirements.

The combination of this swing in contract type and the depressed state of the market has resulted in greatly increased levels of competition and has acted as a catalyst for the erosion of fees. Gilbane have seen their average fees fall by 30 % over the last 5 years. Despite the changing environment, expenditure on marketing has remained at a high level, currently representing approximately 26 % of the fees charged <sup>2</sup>.

### **What does marketing achieve ?**

Marketing at Gilbane allows the organization to actively participate in any arena that they wish to do business in. Their extensive and diverse portfolio of previous project experiences is utilised to promote their capabilities and reinforce the image of a premier building company.

Marketing provides Gilbane with the knowledge required to effectively penetrate markets that

have been identified as being areas of opportunity, exhibiting growth potential and reduced levels of competition. For example the areas of process manufacturing, water facilities and transportation.

Finally marketing is used to provide Gilbane the opportunity to differentiate itself from the competition. This differentiation is achieved by identifying those customers to whom construction is not simply a commodity type service. Gilbane then focuses their attention and provides the services that are desired by those who most value them. In this way Gilbane positions itself and believes it will be perceived as a provider of these specialised services, thus achieve an enhanced level of differentiation.

Although the organization feels it understands the importance of marketing and is currently utilising this knowledge to shape its approach, it recognises the following as areas of concentration for the future:

(1) reduce the cost of sales, i.e. improve the efficiency of marketing expenditures.

(2) enable the company to secure more mutually favourable contract terms, for both Gilbane and

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<sup>2</sup> note. 26 % of total fees before overhead etc.

the customer.

(3) increase the % of repeat business and to generally increase the volume, i.e. Gilbane is committed to further growth.

(4) improve the efficiency of both information retrieval and communication within the organization. Specifically the increased use of IT.

### **The Marketing Strategy Development Process**

Gilbane have two levels of strategic market planning. The differences between them being the time horizon over which they operate. The first level is the long term or umbrella plan that provides the basis for all other planning activities is called "Vision 2001". Its purpose is to provide the organization's overall direction and to prepare it for the beginning of the next century. A result of Vision 2001 has been the establishment of 11 different task forces working on strategic issues which include commercial technical and human resource items.

The next level of planning, performed by Gilbane on an annual basis, concentrates on the development of shorter term

marketing strategies. These use a three year horizon and are developed in accordance with both Vision 2001 and information provided by the five regions. The strategies are both qualitative and quantitative in nature and are intended to more sharply define medium term corporate objectives. The strategies are developed on a regional level because the organization believes that the regional vice presidents have the best understanding of their respective market environments. Thus although there are very distinct corporate goals, these are developed with an understanding that the regions have a considerable amount of autonomy to achieve them in the most effective manner.

There is a considerable amount of information transferal from both bottom up and top down. In this way it is hoped that the most appropriate strategies may be formulated and implemented.

Gilbane does distinguish between marketing, sales and business development. The organization considers that sales and business development are primarily the responsibility of the regional marketing teams. The corporate group is responsible for providing marketing support including overall

strategy development and coordination, market research consolidation and production of the necessary promotional materials.

Each region has its own strategic planning team comprising its vice president and all the functional heads, although the business development manager provides the majority of input on marketing issues. This team determines the best course of action given the corporate objectives, makes decisions about which projects it should pursue and what its point of differentiation will be.

One goal of Vision 2001 is for the organization to penetrate expanding market segments in which the customers place greater value on their facilities. An example of this is the current effort to gain a strong position in the process segment encompassing pharmaceutical, biotech, food and chemical industries. The critical point here is that high quality construction of these types of facilities can make a significant difference to a companies performance. There is less emphasis on price and more on the projected performance backed by previous experience.

Gilbane decided that this segment has significantly different

demands to the others it serves and has set up a cross regional team to help penetrate this market. This team is headed up by a recently hired VP for Process with experience in the area.

An interesting debate will arise at such a time when each of the regions has sufficient process business to justify having its own process group. What will happen to the cross divisional team ? and if this team is successful then should all the markets be served in this manner as opposed to the regional setup that exists currently ?

The belief at Gilbane is that they provide the customer the following value. They become the customer's advocate, they provide planning and organization, quality assurance, minimise the risk of excessive markups on subcontracts due to their knowledge of the business and generally provide a feeling of security and trust. All this is backed up by their extensive experience over the last 100 years and their excellent reputation.

It is now felt at Gilbane that the marketing plan should be and is the driving force behind the organization's strategic plan and as such is of critical importance.

## **Services**

Gilbane offer construction management, program management and general contracting services. Within the boundaries of construction management it provides both agency CM services (i.e. with the owner holding all contracts) and, at risk CM services (i.e. holding the contracts themselves). In the later case it frequently receives a % of the total contract as its fee, although other arrangements are becoming increasingly common. It operates in a broad range of segments and knowledge of these will provide a greater understanding of the services offered.

## **Segmentation:**

Gilbane segments its market in the following manner:

- 1) **Corporate work:** this includes work on corporate headquarters, research and development centers, process and manufacturing facilities and data centers. This segment represents between 25 and 35 % of annual volume.
- 2) **Public sector, negotiated:** including projects such as airports, correctional facilities,

courthouses, sports stadiums and both water and transport related infrastructure. This segment represents between 35 and 40 % of annual volume.

- 3) **Health-care:** including hospitals, clinics and laboratories. This segment represents between 20 and 25 % of annual volume and is exhibiting growth, despite the uncertainty surrounding the U.S. health-care review.
- 4) **Institutional / Educational:** including universities and public schools. This segment represents between 10 an 15 % of annual volume.

These segments represent the broadest groupings and within each there may be significant differences in project characteristics.

Segmentation is viewed at Gilbane as a strategic tool as by choosing segments carefully some degree of insulation from the cyclical nature of the industry is achieved effectively maximising profitability. Additionally segmentation assists Gilbane in identifying those customers that are responsive to their preferred methods of delivery; construction or

program management. Responsive meaning here that these segments perceive a greater level of value associated with these contracting methods. Gilbane target customers in segments in which they believe they provide the highest value, often complex projects or those with very low levels of tolerance, e.g. to schedule deviation.

A segment is attractive to Gilbane if it has the following characteristics:

- (1) Good levels of demand and growth potential.
- (2) It is receptive to the use of CM or PM, the preferred delivery methods at Gilbane.
- (3) The projects are sufficiently complex that the customer places a higher value on the building process.

### **Pricing**

Prices are developed at Gilbane by combining the cost of work, that must be reimbursed by the customer with a desired level of profit and an assigned fraction of corporate overhead. The level of profit is determined by consideration of the following factors.

- (1) what the market will bear, i.e. a measure of the level of competition.
- (2) what areas of the project really provide the added value.
- (3) a comparison of the expected **return on labour (ROL)** with benchmark values <sup>3</sup>.

The use of the ROL measure acts as an equaliser and allows segments with different characteristics to be more fairly compared against each other. ROL is used as a benchmark, but with sufficient flexibility to respond to market forces. For example, Gilbane will adjust the desired ROL, depending on its perception of a project's risk.

In addition to the fact that the average fees have fallen substantially from the levels of five years ago, the company is finding continually increasing levels of service are expected without an associated increase in fees.

### **Promotion**

Promotional activity is principally the responsibility of the regional business development

<sup>3</sup> ROL defined by dividing the fee (= profit + overhead) by the bare (i.e. with no benefits) salary cost of the personnel on the project.

groups. They coordinate the contact of the target customers and assign individuals with the responsibility for developing particular relationships. In addition to these direct contacts with prospective customers they are responsible for performing more far reaching networking. These other activities involve maintaining relationships with architects, engineering firms and essentially any group or individual that may influence the selection of their organization over their competitors.

The promotional efforts are a combination of both proactive and reactive activities. For example, Gilbane attend various trade shows despite the relatively high cost, provide speakers for building seminars, again often at considerable cost to themselves.

In addition to these they utilise a number of other tools such as organizing in house lectures aimed at specific market segments to which they invite existing and new potential customers. The corporate group produces glossy brochures aimed at specific market segments and have a very extensive collection of reprints from both trade and academic journals. Another piece of literature that is produced is a monthly newsletter titled the Gilbane Bulletin,

which is distributed to both customers and employees and provides up to date information on both upcoming and continuing projects. These materials are used most often to either accompany or follow up presentations or lectures. Additionally, Gilbane does sometimes utilise direct mail programs in order to remain in the forefront of the customers mind.

Gilbane places great emphasis on value of its relationships with customers, indeed it is currently endeavouring to develop a greater number of quality relationships with its customers. It is hoped that this effort will facilitate the achievement of its goal of obtaining a higher proportion of repeat business and a greater number of favourable recommendations. In order to nurture these relationships it sends out a minimum of two satisfaction surveys during the course of each project.

As well as the relationship development at the regional level the corporate headquarters is promoting the establishment of a number of senior executive level contacts. It is hoped that this higher level contact may facilitate the development of national accounts with some of the larger and more geographically dispersed customer groups. As would

be expected by the chosen strategy only about 10% of RFP's are completely unsolicited on the part of Gilbane, the others all having had some level of initiation or encouragement.

Another aspect of the promotion activities is the identification and subsequent approach of new potential customers. This process occurs in two ways, the first being as a result of receiving an RFP or enquiry from the client, although in the majority of instances Gilbane's local business development office has had some involvement. The second is entirely attributable to Gilbane and occurs when the business development group decide to approach potential customers in a segment they feel is ripe for expansion, without knowledge of any specific project. These first contacts are made in one of three ways, either an attempt is made to establish who makes up the Decision Making Unit within an organization and they are subsequently approached or, contact is made by the BD manager by telephone or mail utilising information gathered by the market research group, or, finally companies are approached as the result of being listed on company market research or through various listings such as trade

directories or subsequent to conversations at trade shows.

### **Information Resources**

Although information is thought to be of the utmost importance at Gilbane, the level of autonomy given to the five regions causes considerable differences in quantity and type of information gathered. The reason for the lack of consistency is that the organization has found it to be more successful to allow the regional VP's to develop those sources that they see fit.

The company as a whole does keep on computer, a project database, a watch out file (that contains details of any incidents that have provided a learning experience that may be avoided in the future) and a personnel skills inventory (that keeps track of all personnel's training and project experience).

The regional marketing groups maintain files on their customers although as yet there is little transfer of information between the regions. This is partly due to the nature of the information, i.e. the mixture of both paper based and electronic databases depending on the region and that there is no standard form. There is acknowledgement that a national customer database would be of value



although the company also believe that its lack of existence has not proved significantly detrimental in the past.

The company tracks the trends and state of each of the markets it serves. This was once done by a full time economist employed specifically for the task, however, it is now done less formally and is the responsibility of both corporate and regional marketing personnel. The information is obtained by remaining up to date with the business press and trade journals and as such is fairly low key. The reason for the change is that it is fairly straight forward to keep track of overall industry trends at a corporate level, but it is the variations between regions that are critical and can be more easily observed by people actually in the respective areas.

Competitors performance is followed, but only in a fairly random and diffuse manner. The corporate department acts as a repository for any information that is obtained (it maintains simple files). Although it has been, and still is, a challenge to get good information from the regional business development groups. In fact it has been found that the best source of competitive information is the customers as they compare Gilbane's performance with that of other

organizations.

### **Who is involved with marketing at Gilbane**

Marketing at Gilbane is set up to involve both a corporate group and individual departments within each of the five regions.

The corporate groups responsibilities are summarised by fig. 3 which provides an idea of both the number of people and their responsibilities. It is principally designated to provide support and overall coordination for each of the regions. It is responsible for strategic planning, gathering market research, preparing brochures, media relations and regional sales assistance as and when required or deemed necessary on a corporate level. The group is headed up by Mr. Al Potter, Vice President-Marketing, who has both a first degree in Civil Engineering and an MBA in Finance and Marketing. His job is divided evenly between providing support to the regional business development managers and overseeing the operation of the corporate marketing team.

In each of the regional level there are regional business development managers who are responsible for the achieving the budgeted sales. They each have a

team of salespeople and support staff reporting to them, and in turn are accountable (by line) to the regional vice president although there is a functional (matrix) accountability to the marketing VP as well. There are currently 23 field salespeople (known as business development managers) plus appropriate numbers of support personnel distributed between the five regions.

The people employed to perform the marketing tasks come from a broad range of backgrounds educationally, however there is one similarity between many of them. A good proportion of them approached Gilbane and / or have been hired from competitor organizations. This is quite deliberate on the part of Gilbane as they perceive that there are three advantages to this:

- (1) they must like to sell.
- (2) they are selling large ticket capital items and as such should have a more mature appearance.
- (3) experience is essential.

Some are from other construction firms others were previously in management or design

companies. The selection of the correct people for the regional sales effort is taken very seriously. Gilbane use personality profiling to ensure that the people chosen are the most appropriate i.e. have the necessary personality matches to perform the task successfully and happily.

### **Control Mechanisms**

Great care is taken to ensure that the marketing is done as professionally and in as cost effective manner as possible. Despite the autonomy given to the five regions there are a number of different corporate wide programs in operation in an attempt to maintain a reasonable level of control. These include the preparation of both a corporate and total regional marketing budget during the planning period.

The total regional budget is then divided between the regions and may be broken down in as much detail as amounts for specific segments, customers and even projects. The amounts are developed on the basis of the salaries of the personnel involved, the cost associated with the preparation of proposals and the expected distribution of project opportunities. The process is done very much on a consensus basis with

much negotiation occurring between the corporate group and the individual regions.

Once the regional budgets are established the figures are compared against the monthly expenditure reports generated by the regional and corporate departments. In this way the expenditure is monitored and controlled.

Marketing also has the authority to turn work away depending on the circumstances. These decisions are made at the regional level by the business development staff and the regional vice president, with input from the other functional department heads. At Gilbane reasons for rejecting work include uncertainty about the customer's economic stability or their intention to maintain a cooperative relationship, general project risks including, whether or not it is "real" and the terms of contract, and finally its fit within the regional strategic plan. The last reason is not rigidly enforced at the corporate level and hence providing there are no other negative aspects some degree of latitude is acceptable.

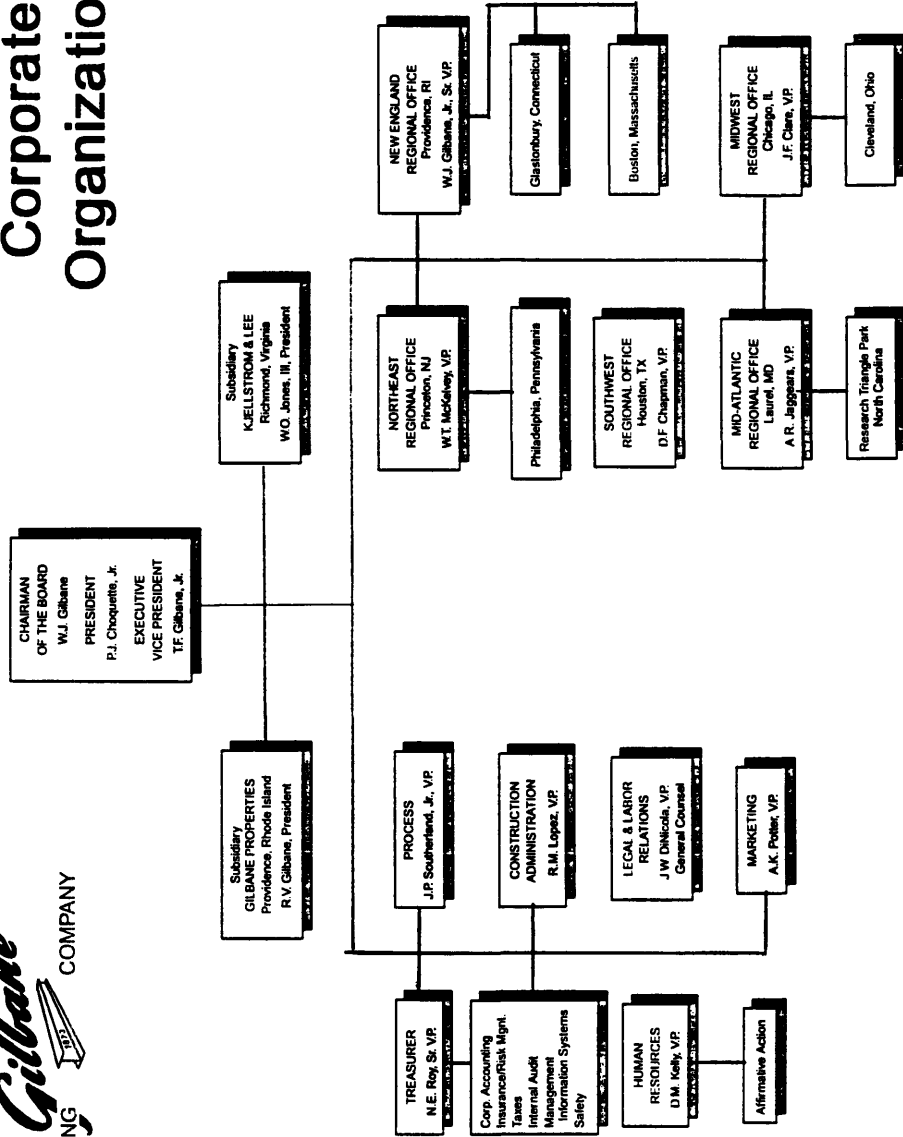
**A note on regional autonomy:**

There is some interest within the organization concerning how

much autonomy is a good thing and at what point does it begin to distract the corporation from its objectives. Eight years ago, after experiencing a period of considerable growth the company experienced some problems in the area of quality control of some of its regional operations. The result was that Gilbane decided to phase out the Florida office. The consensus of opinion was that this problem arose as a result of a loss of control at the corporate level. This in turn caused the headquarters to "pull in the reins" somewhat to improve operational consistency. A series of company-wide quality and technical training programs were instigated with the intention of providing greater control and a more consistent level of performance across all regions.

The feeling at Gilbane now is that the organization operates on the basis of a corporate / regional partnership. This balance helps to ensure focus on quality while allowing the regions a certain degree of freedom of choice that it will be most able to serve its diverse set of markets.

# Corporate Organization

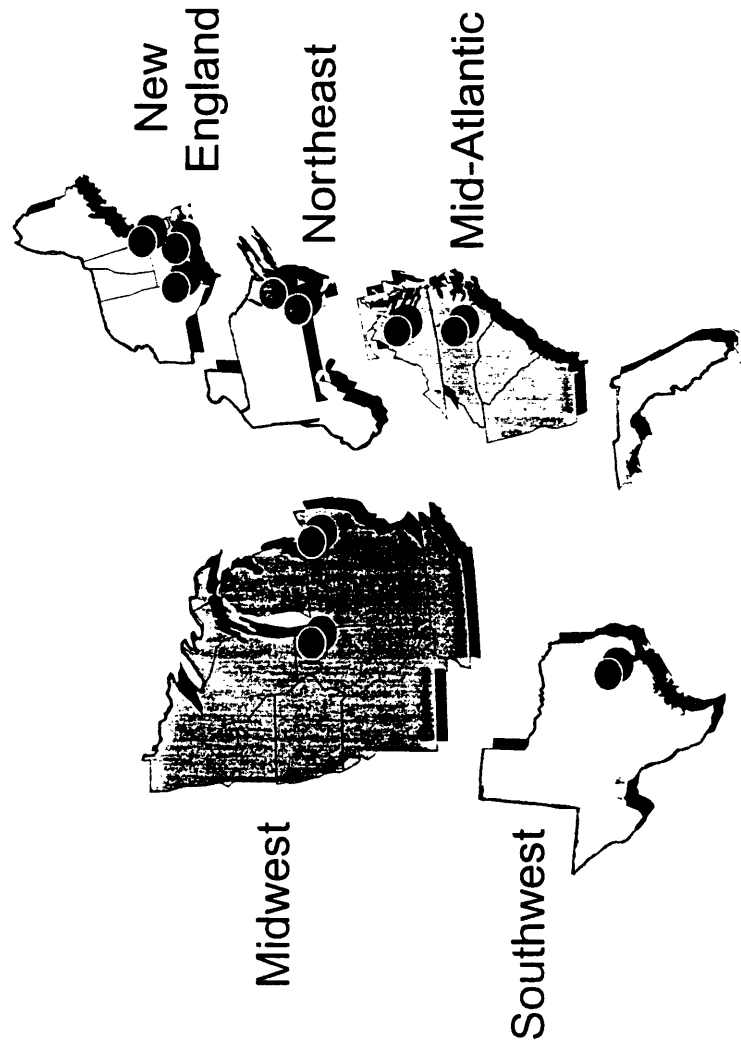


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Figure 1. Gilbane Building Company's Organizational Structure

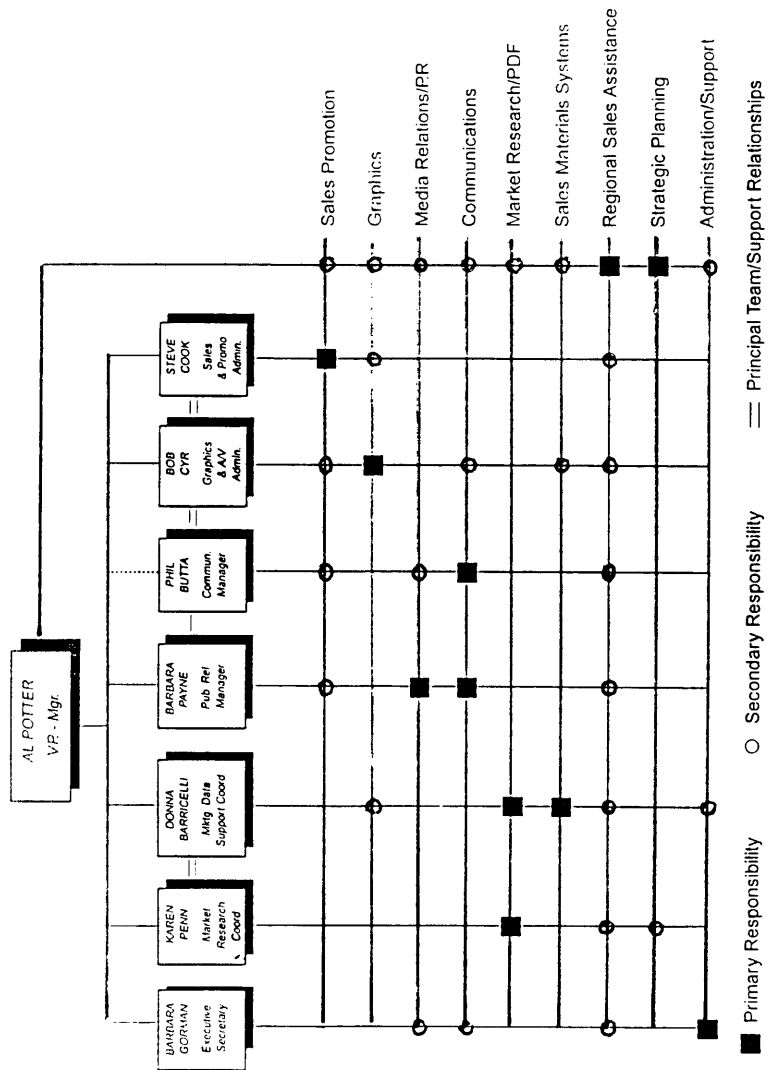


## Gilbane Offices



**Figure 2. Gilbane's Major Office Locations**

# CORPORATE MARKETING DEPARTMENT Organization and Principal Functional Responsibilities



**Figure 3. Gilbane's Corporate Marketing Department, Structure & Responsibilities**

# **MARKETING CASE STUDY OF** **KENNEDY & ROSSI INC. AND** **KRI MANAGEMENT INC.**

## **Introduction**

*This case study was prepared from interviews with John Kennedy, owner, Bill Morash, President Kennedy & Rossi, Bill Pineo, President, KRI Management and Gary Murphy, Marketing Director. November, 1993.*

In 1981 John F. Kennedy bought a construction company owned by Peter F. Rossi. The company had been in existence for about 40 years and was a small general contracting firm serving the Boston area. Its annual value of work completed at the time of change of ownership was approximately \$500,000. The company had a good reputation and despite the fact that Peter Rossi had not used formal contracts, he had never been involved with litigation of any kind as a result of a dissatisfied client.

John Kennedy had been employed in the construction industry for a number of years. Before the acquisition of his new company he was employed by Walsh Brothers Inc., where due to his success he became the first non family vice-president of the company. This job had allowed him to develop and refine his ability to court and win new clients. It was this skill and his knowledge of the industry that he brought to his new venture.

The value of work completed by the company over the years since the acquisition is shown in fig. 1. It can be seen that the company grew steadily at first reaching \$5M in 1983 and then more rapidly up to \$28M by 1988. The maximum level obtained to date was in 1992, \$48M, however the last four years have seen the figure fluctuate between \$30M and \$50M. Currently the organization performs between 75% and 90% of its volume for repeat customers,

and by far the majority of its projects (80% - 90%) are awarded as negotiated contracts.

It should be noted that although there are two distinct companies, Kennedy & Rossi Inc. and KRI Management Inc., for the purposes of this paper they will be referred to as The Kennedy Companies, or in a combined sense, the organization.

### **The Importance of Marketing at The Kennedy Companies**

Marketing is viewed at the Kennedy Companies as being a critical aspect of the the business. The senior management emphasize however, that it is not by any means of superior importance than the other business functions. The philosophy of the companies has always been to perform every job with the highest attention to detail, and to aim to exceed customer expectations. It is believed that this is the most powerful marketing tool available, since well satisfied customers invariably return.

The importance of marketing has changed at the Kennedy Companies. The change has been in the degree of formality with which the process is approached. Initially the organization's success was the result of John Kennedy's ability to win

opportunities for the companies to demonstrate their ability. As the company grew this ability was increasingly supplemented by the companies growing reputation. In combination these two factors were marketing at The Kennedy Companies. While the organization recognized that its "marketing" activities were important, it did not perform them as the result of any formal company policy.

More recently the organization recognized that its performance might be enhanced if it developed a more comprehensive marketing process. This has driven its attempt to more explicitly define the activities that constitute marketing, and to both put together and implement a far more formal plan. As part of this more formal approach to marketing The Kennedy Companies have recently employed a marketing director, Gary Murphy, whose job is to coordinate marketing activity for the organization.

### **What does marketing achieve ?**

Currently the Kennedy Companies perceive that their marketing activities allow them to:

- 1) obtain the desired volume of work in the chosen segments



and from the desired customers.

- 2) maintain the companies' exposure, i.e. keeping their desired customers up to date with the services they offer.
- 3) identify potential markets in which they could apply their current capabilities and expertise.

However, the organization recognizes that its marketing activities still have considerable potential for future expansion. In particular, the owner John Kennedy, expressed a desire that marketing should provide an increased level of confidence when considering the development of both new services and / or markets. He perceives that the organization is still too conservative and as a result misses potentially valuable opportunities.

The other area, in which it is believed marketing could provide considerable benefit, is strategy formulation. The organization feels that marketing should enable the companies to more accurately forecast and then develop the combination of services that will provide maximum profitability. The

companies feel that in order for a construction organization to remain successful, it is essential that it continually develops and refines its service offerings to match the customers requirements.

### **The marketing strategy development process**

The marketing strategy at The Kennedy Companies is formulated by a group of people including John Kennedy, the Presidents of both KRI and Kennedy and Rossi, the marketing director, and the senior project executives. This group meet at least annually to discuss the strategy and expected activity in each of the markets. These meetings are also the forum in which any new service offerings that have been identified as potentially profitable may be discussed and plans made for their development. In addition to the annual strategy meetings the organization holds weekly marketing meetings. The purpose of these meetings is to allow the companies to discuss both potential future opportunities and the progress that is being made with the current project negotiations.

Despite having an annual planning cycle, The Kennedy Companies recognize that their

strategic marketing planning is more of an ad-hoc nature than it is the result of a formal procedure. Additions and alterations are made to the strategy as and when they are perceived necessary.

Another important area of the marketing strategy development is the identification of desirable customers. The organization feels that as a result of its size, hence limited resources, that it is beneficial for it to identify those customers for which it would most like to work. Each segment is considered in turn and a list of the top 20 customers (as viewed by the companies) is developed. These lists provide the organization with an excellent basis with which to focus and distribute marketing resources.

The services that are to be promoted to the customer as the organization's areas of differentiation are selected for each project by the responsible project executive. The decision is made in consultation with the marketing department, in order that all the available information about the customer and its principle concerns are considered. As such they are reviewed on a continual basis and the organization strives, on each project, to choose those services which the customer will perceive as

offering the greatest value.

The value that the organization believes it provides to its customers is:

to control project risk, as a result of the companies extensive experience / expertise and their ability to communicate and coordinate effectively with all of a projects participants.

The philosophy at The Kennedy Companies is that their business and marketing strategies are highly integrated, and as such should be developed in close association. They believe that the business strategy must consider all aspects of the business including finance, operations and marketing, and culminate in a set of policies and objectives covering each of these areas. The marketing strategy must identify how the policies and objectives may be achieved, given the market conditions. The high degree of integration is perceived to be essential if the companies are to develop the most appropriate strategies.

The organization considers business development and sales to be an essential part of the marketing process. However, it does distinguish

between the two on the basis of time. Business development is an ongoing process involving implementation of many activities outlined by the marketing strategy. Whereas sales are considered to be the culmination of the process and comprise of many discrete, short-term activities.

### **Service**

The services offered by the organization are divided between the two separate, but cooperative companies. The first of which, Kennedy & Rossi Inc., provides general contracting and construction management services. The second company, KRI Management Inc., offers extensive preplanning, construction / technical consulting and project / program management services. In order to put the services into greater context it is important to consider the way in which the companies segment their markets.

### **Segmentation:**

Both Kennedy & Rossi and KRI Management offer their services to the following segments:

- 1) Independent schools: including both refurbishment and new construction for private secondary schools and

universities. This segment representing between 10% and 20% of annual volume.

- 2) Biotech. / Pharmaceutical: including work on R & D laboratories and pilot plant facilities. This segment representing approximately 50% of annual volume.

- 3) Health-Care: including work on hospitals and clinics. This segment representing approximately 30 % of volume.

The driving force behind the segmentation at The Kennedy Companies is their customers' requirement for specialization. The organization understands that in order to obtain work in these markets it is essential to be perceived as being specialists in the area and treating them individually. The segmentation also benefits the companies, since it enables them to more easily identify the different concerns and tailor their services appropriately.

The Kennedy Companies have selected these segments because of a number of common characteristics. The first of which is that customers in these segments are particularly demanding about previous experience

and proven expertise. Indeed, in many instances it is a prerequisite that the contractor has already worked for the customer, thus demonstrated its expertise. The result of this being that there are generally a smaller number of competitors, whose service capability and expertise is well known.

The second characteristic is that each of these segments tend to place a higher value on construction services and as a result are less price sensitive. That is not to suggest that money is no object, but that there is definitely a greater propensity to pay for higher quality.

Thirdly the customers in these segments are generally speaking more sophisticated, i.e. they know exactly what they require. In dealing with more "educated" clients The Kennedy Companies reduce the risk of misunderstanding the desired scope of work, hence develop fewer inappropriate responses (minimising wasted resources).

The final characteristic, which might be considered by some to be an extension of their sophistication, is the tendency for customers in these segments to favor negotiated forms of contract.

Each of the characteristics presented above are consistent with one of the organization's principle

policies, that being, to maintain a high proportion of repeat customers.

### **Pricing**

Prices are developed at The Kennedy Companies by considering four major areas. The first of which is their records of previous project prices. These records are organized by project type, segment and even customer, hence the companies can quickly assess historical price levels in a particular area.

The second area which the companies consider, is their forecast of competitive prices. These forecasts are developed through a research process, the companies uses all the available information concerning the competitions, including historical prices and current levels of activity.

By rationalizing the first two areas it is possible for the companies to establish a base price for the project. They then estimate the additional value (as a percentage of the base price) provided by the services that are being promoted as areas of differentiation and add this amount to produce a final price.

The last point that the companies consider is the viability of the project in its own right. In other words, if the organization is not confident that its costs will be less

than the developed price then it will not pursue the project. The companies have no standard target level of return, since every project is different. However, they do insist that each project must be self financing, and do not bid projects low in the hope that either the resulting goodwill or another more profitable project will make up for the loss.

### **Promotion**

Promotional activity at The Kennedy Companies is performed in a number of different ways. The first of these is the development and maintenance of good customer relationships. The companies believe that the most fundamental way in which they can maintain their customer relationships is by their performance. As was stated earlier the company aims to exceed their customers expectations, hence improving the probability that their customers will award them further projects.

As a further indication of the organization's emphasis on performance the management company currently offer process guarantees. These guarantees state that any plans and specifications for process performance, developed by the management company can be

achieved by its sister construction company. This provides the clients with a greatly reduced level of uncertainty about the realization of the proposed plans. The guarantee is possible since the management company are acutely aware of the construction company's capabilities. They can not, of course, provide the same guarantee for other contractors. While these guarantees are a powerful incentive for customers to return, they are also an significant catalyst for gaining opportunities to demonstrate the organization's ability to new customers. The guarantees provide the new customer with a much higher level of comfort, even though the company has not worked for it previously.

The organization also feels that it is essential for it to maintain high levels of customer contact between projects, particularly of those customers that have been identified as the most attractive. The reason for this is that despite efforts to remain highly differentiated from its competitors by way of the organization's performance, it appreciates that in reality their clients have very short memories. The Kennedy Companies believe that is equally important to remain in close

contact with those clients for whom they have recently worked and those for whom they have not.

One of the responsibilities of the marketing director is to telephone and make periodic visits to all of the organization's clients. The purpose of these calls is not to discuss specific requests for proposals already on the table, but more to allow for a transfer of information. The organization insures that any new services or capabilities are brought to the attention of the client and in addition obtains a good feel for any work that may be forthcoming.

In addition to the customer relationships, the organization actively maintains contact with a number of other groups and individuals, as illustrated by fig. 2. This companies understand that in many instances the choice of contractor is made with considerable consultation with one or more of these groups. Hence, by maintaining these relationships the organization believes that it can significantly improve its probability of selection.

The companies also ensure that they are represented at conferences and exhibitions, remaining in close contact with their competitors. They also give periodic presentations to a broad range of

groups highlighting their services and the work in which they are currently involved.

As an indication of the success of the organization's promotional activity, it states that more than 90 % of the projects it completes are identified by the companies before an RFP is issued.

### **Information resources**

The first area about which the Kennedy Companies keep extensive information concerns the profitability of projects. The information is organized by segment, customer and even project type. The belief at the companies is that carefully tracking this provides two distinct benefits. The first of which is the organization's ability to determine which segment / service combinations are most profitable, hence prioritize opportunities in terms of profit potential. The second benefit was mentioned in the section concerning pricing, that is, it provides a crucial input to the development of price. It enables the company to assess the extent to which different customers value different services, and provides an indication as to their price sensitivity.

The next area about which The Kennedy Companies gather and store

information concerns their customers. The companies maintain a shared computerized customer database. The database includes such information as previous projects in which the companies were involved, key contact people and any areas about which the customer expressed specific concerns. The information is continually updated and expanded. It provides an invaluable resource that facilitates the development of both specific proposals (since the companies are already aware about many of the organizations' specific concerns), and customer contact programs.

Another area about which the companies gather information concerns the situation in each of the segments in which they operate. The organization's objective is to try to pick up any changes that might occur in the chosen segments in the future. It is considered critical that the organization is aware of the possible influence of major political and economic events. This allows the organization time to make any alterations to the strategy, necessitated by shifts in the market environment.

An example of the type of information that the company is interested in, is the current shake up

of the health-care industry in U.S.. Since this will most likely have a profound effect on the amount of money spent on new construction and refurbishment of existing facilities. Another area of potential change is the pharmaceutical industry, where adjustments in governmental regulations, vis-a-vis reductions in the price of many products, may seriously effect the size and profitability of this segment (historically highly lucrative and prolific).

The last area about which the companies are interested in remaining up to date, is the activity of their competitors. Although it is emphasized that of all of areas about which information is collected, this is the least formal. In particular the types of information that the companies try to ascertain include, the introduction of new services, entry in to new segments, exit from existing segments and whether the companies are growing or shrinking. This information is utilized by the organization particularly when developing proposals. It provides the companies with an understanding of the areas in which the competitors will concentrate and an idea as to the prices against which they will be compared.

### **Who is involved with marketing at The Kennedy Companies**

The philosophy at The Kennedy Companies concerning marketing is that it is everyone's responsibility. The organization firmly believes that it is essential for everyone to focus on providing the maximum consideration and service to the customer. As a result of the companies size, much of the marketing is performed by members of the company that occupy other positions, such as project managers and project executives. However, in the last 12 months the organization hired a marketing director, who is responsible for coordinating the activities. The marketing director is also responsible for maintaining customer contact, identifying attractive project opportunities, and searching for new areas in which the companies might apply their expertise.

In addition to the marketing director, the owner John Kennedy remains very active in the marketing of the organization. His primary task is to develop and maintain many of the non-customer relationships that the organization has found to be so beneficial. As a result of his previous work and social contacts he has developed an extensive set of relationships with trustees or senior

executives of many organisations and businesses. These relationships may be leveraged, as illustrated by fig. 2, in order to improve the organization's probability of success.

The Kennedy Companies are not sufficiently large to warrant a large group of people exclusively assigned to marketing. The preparation of proposals and delivery of presentations involve many individuals with limited marketing experience. It is therefore seen as essential for the companies to educate their employees as to the importance of effective communication with the customers. The organization perceives that it has managed to achieve this, and with the guidance of both the owner and marketing director is able to perform the marketing task as well, if not better, than many organizations with considerably greater resources.

### **Control mechanisms**

In order to control the marketing process The Kennedy Companies utilize a number of different control mechanisms. The first of which, as has already been mentioned, is there understanding of the profitabilities of different projects. This information is used by the companies in order to prioritize the



opportunities, hence allocating resources to those opportunities with the highest profit potential. An extension to this is the companies' policy regarding rejecting any work on which it feels it will be unable to make a profit.

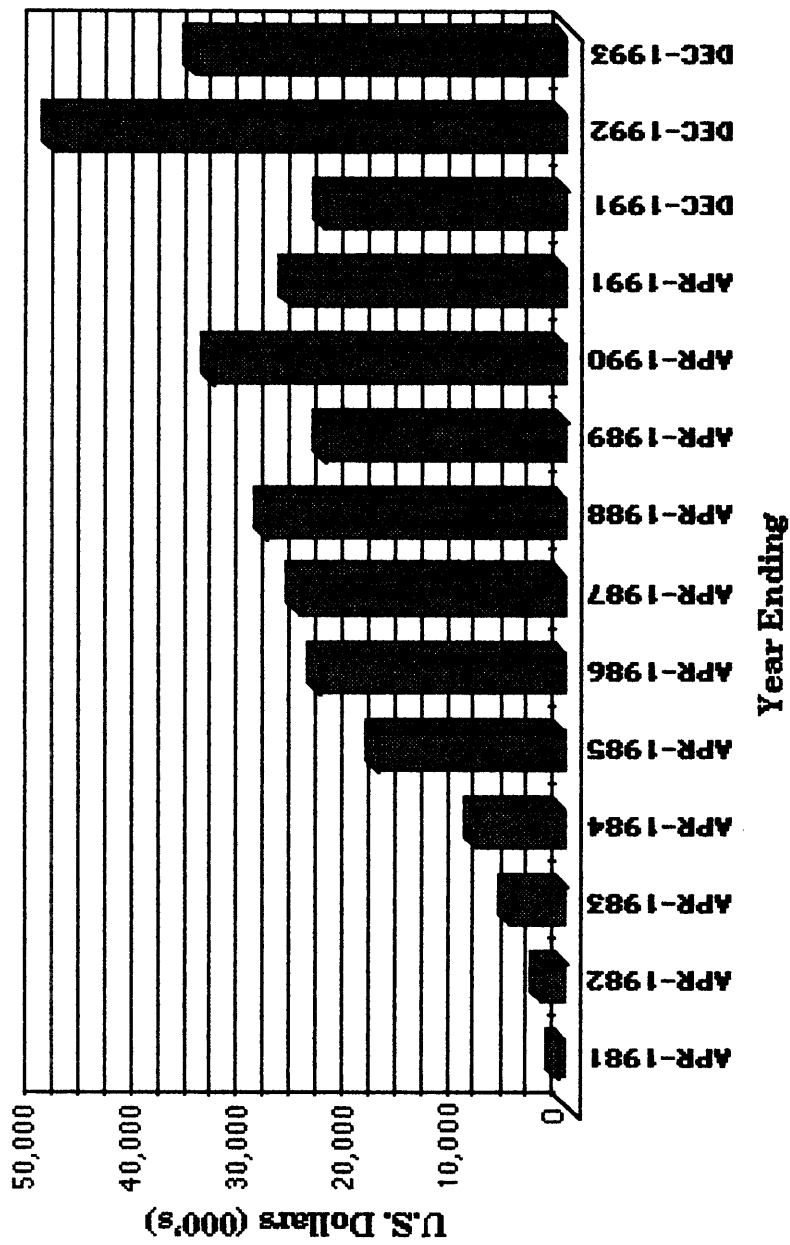
Another way in which the marketing activity is controlled is that the companies will refuse to pursue work, if they are in any way uncomfortable with the proposal. Among the reasons why they might reject work are:

- 1) poor profit potential
- 2) untrustworthy customer, either poor payment record or reputation for adversarial treatment of contractor.
- 3) unacceptable contract terms, transferring too great a level of risk to the company
- 4) lack of capacity, the companies will not risk their reputation by overstressing themselves.

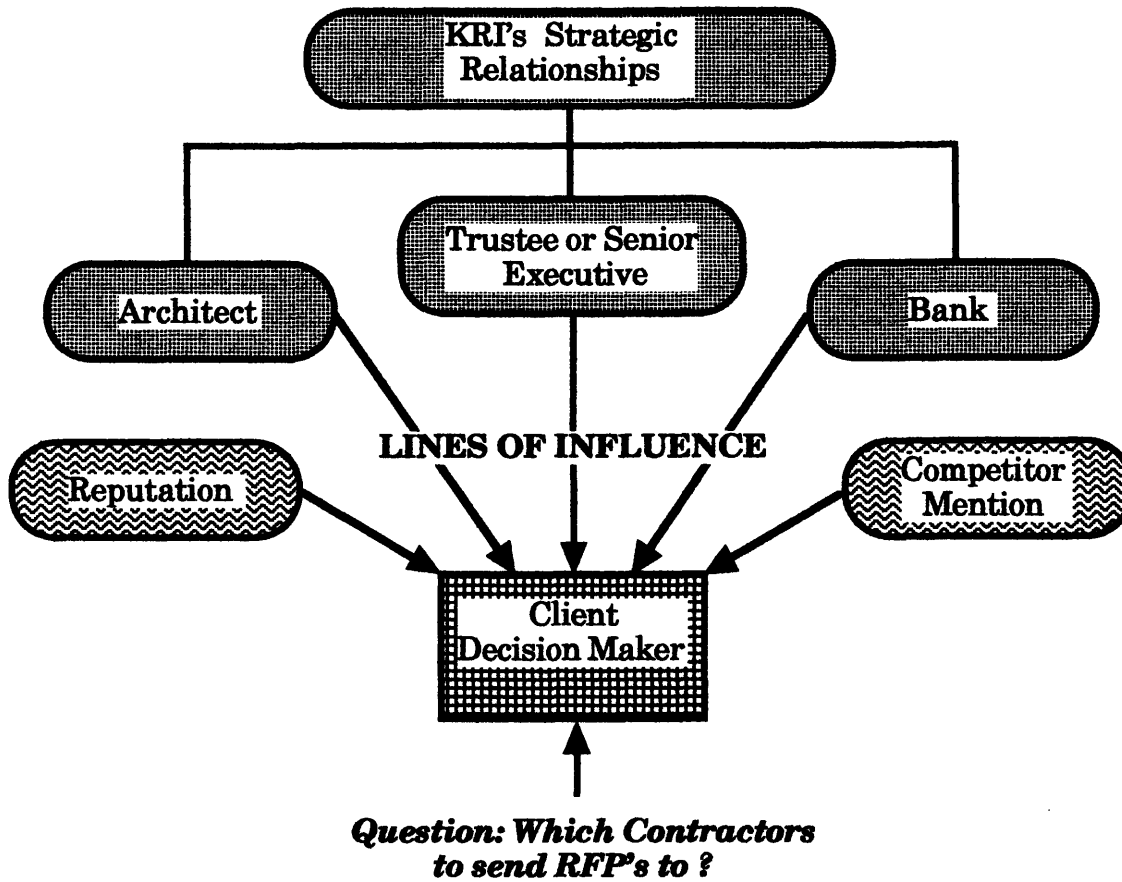
Marketing expenditure is controlled as a part of the organization's budgeting process. Marketing activities are allocated an amount annually and the expenditure

is tracked on a monthly basis, so that any discrepancies may be addressed. The organization uses its forecasted project profitabilities to distribute the budget appropriately among the opportunities.

Another way in which the organization attempts to control the marketing activity is by the annual identification of "selected" customers. The selected customers are those with whom the company would most like to do business in each of the three segments. Their selection is based on the historic profitability of their projects. The results of this procedure then provide the basis for the development of the marketing schedule. The marketing schedule being a chart that lists all of the organization's "selected" customers along with a schedule of contact activities. This is intended to reduce the chance that any of the "selected" customers are neglected.



**Figure 1. The Kennedy Companies Revenue Growth**



**Figure 2. Illustration of Influence of KRI's Strategic Relationships on Contractor Selection**

# **MARKETING CASE STUDY OF** **MORSE DIESEL INTERNATIONAL**

## **Introduction**

*This case study was prepared from interviews with Mr. E. Collins, President and Mr. R. Lampman, Corporate Director of Business Development, Morse Diesel International April, 1994.*

The company was formed in 1936 and operated under the name Diesel Construction in New York City. The unusual name was a result of the type of work that the company specialized in, that being the installation of diesel generators. By 1959 it became a division of Morse, Inc./ Diesel construction, a division of Carl A. Morse. Carl Morse was a contractor with a vision of building a construction company that could service clients nationwide. Carl Morse is seen by many as being the pioneer of construction management, he saw the potential benefit of having a consultant that looked after the owners interest while coordinating the activities of the numerous parties involved and maintain effective channels of communication.

The company grew as the service offered became increasingly popular and it soon became the leading builder of high rise commercial buildings in New York City. As a result of the reputation that was forming the company began to get requests to do consulting work on similar projects in other cities around the U.S. and the company began to increase its geographic coverage. In 1985 Carl Morse's sold his interest in the business to the chairman Don Piser and other senior executives, including Ed Collins. From 1987 to 1989, the company was renamed Morse / Diesel Inc., And in January 1990, it formed a partnership with AMEC Projects Inc., a wholly-owned London based subsidiary of the \$ 4 billion AMEC p.l.c. of the United Kingdom to create

Morse Diesel International. The partnership provided AMEC with an entree to the U.S. building construction market and Morse Diesel with both an injection of capital and increased access to several international markets <sup>1</sup>.

Today, Morse Diesel International employs over 400 people in 13 locations across the U.S. and has a turn over of approximately \$ 1 billion annually. Among the landmark projects for which it was responsible, are the Sears Tower (Chicago) and the Pan Am building (New York City). It offers construction management, general contracting and construction consulting services to customers in a broad range of industries. Of the work that the organization does currently about 80% is awarded on the basis of a negotiated contract and approximately 20% of the work is secured through competitive bid.

### **The Importance of Marketing at Morse Diesel International**

Marketing at Morse Diesel is currently considered to be very much a support function of the business. Organizationally if areas of the

<sup>1</sup> It should be highlighted that at the end of 1994 the company will become 100% owned by AMEC, although it is expected that the company will continue to serve the same markets.

business had to ranked in order of importance then marketing would fall in third place behind operations and finance. The status of marketing has not changed significantly since it was set up officially 8 years ago. It should be noted that this is an organizational opinion and as such does not mean that there is nobody in the company that believes marketing is important. Indeed both the President and the Corporate Director of Business Development stated that without becoming far more sophisticated with regard to marketing the company will become increasingly uncompetitive.

The problem is not that marketing has no supporters but that the organization is so entrenched in the ways of the past. Although the success of the company to this date is a result of all its employees operational and management abilities, the opportunity to demonstrate these abilities has been provided by the efforts of a small fraction of organization.

The problem began during the time that Carl Morse was with the organization. At this time Morse Diesel was asked to provide its service as a result of the reputation of Carl Morse and his "new" construction management technique. Hence a marketing and business development

organization was certainly not necessary in order to find work. Carl Morse certainly provided the company a considerable level of differentiation however, he also had an intriguing attitude toward the company's customers. He was very protective of them and saw them as being solely his responsibility, indeed he was renowned for having said once "no one other than me speaks to my customers".

After Carl Morse sold his stake in the company the situation did not change too dramatically. Although the two most senior executives attempted to distribute the responsibility for marketing and business development across a broader base they ended up acting in a very similar manner to that which they were trying to avoid.

### **What does marketing achieve ?**

In the last few years despite reorganizing its marketing a number of times the company feels that the marketing function still does little more than support the operational and financial areas of the business. The danger that is perceived to be associated with this approach is that the company tends to be too far removed from its customers. That is to say that it will end up providing only the services that it wants to and

not actually those needed by its customers.

The desire at a senior level is that marketing should become the guiding force of company. It should, from a thorough understanding of its environment provide a critical input to the business strategy and then be responsible for achieving the organization's objectives.

### **The marketing strategy formulation process**

The marketing strategy at Morse Diesel is still very much the result of the opportunities that present themselves and not of any disciplined analytical process. It is believed that the problem lies in the way in which the organization is set up<sup>2</sup>. It consists of 10 regional offices (13 offices in total) each being headed up by a Regional manager. The different regions are treated in many respects as individual firms sharing only a name. Each region attempts to serve all markets in isolation from those in other locations. They all respond to the environments in which they exist and obviously place emphasis on the areas where there is the most abundant work.

At Morse Diesel the areas that

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<sup>2</sup> note: Morse Diesel does not have an organizational diagram that illustrates its structure.

are promoted as points of differentiation can be chosen by a number of different people, although most often it is the responsible regional manager. Both the overall strategy and decisions concerning differentiation are in a constant state of review. Projects are considered on a case by case basis and modifications are made continually in an attempt to remain as appropriately positioned as possible (in respect to both the customers and their requirements).

The value that Morse Diesel feel they provide for the customer is:

that it becomes the customers advocate and has the ability to make appropriate decisions concerning the design and construction of their projects. This being the result of Morse Diesel's extensive knowledge, experience and understanding of the construction process.

The feeling at Morse Diesel is that the company's marketing strategy is driven by both the operational and financial goals established in the business plan. It is perceived that this type of relationship was acceptable during the 80's, at which time total demand exceeded supply. However over last three or so years the market

has shrunk considerably and the situation has been reversed. Industry supply is well in excess of demand and the level of competition has increased by several orders of magnitude.

In the current environment, the old relationship between business and marketing strategies is far from acceptable. Business goals can only be realistically set with a careful understanding of the environment that exists. Hence the marketing and business plans should be developed simultaneously and in an iterative manner but certainly not in isolation from each other.

Morse Diesel feel that marketing should be responsible for coordinating and guiding the selling and business development efforts. These in turn should guide the business in the most appropriate direction. Sales is considered by the organization to be a matter of having the right people in the right place at the right time. They feel very strongly that presentation teams should include operations staff, since it is these people that actually provide the service being promoted.

## **Services**

Morse Diesel provide the following services:

- 1) construction management (at risk i.e. they hold the contracts)
- 2) construction consulting (involving establishing schedules, budgets and constructability analysis)
- 3) general contracting
- 4) design/build

However the precise nature of the service is very much a function of the type of customer and hence it is important to know the different segments that Morse Diesel serve.

## **Segmentation:**

Morse Diesel has traditionally segmented its domestic market in the following way<sup>3</sup>:

- 1) Commercial, or office buildings (currently mostly renovations)
- 2) Correctional facilities

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<sup>3</sup> note: The vast majority of work obtained in the last 3 years was from the first 6 segments, specific percentages of volume however might be misleading as they vary considerably from year to year.

- 3) Research Labs (educational and corporate)
- 4) Health-care, e.g. hospitals
- 5) Sports stadiums and convention centers
- 6) Airports and Airline facilities
- 7) Interiors (only Chicago and N.Y.)
- 8) Hotels, mainly renovation
- 9) Manufacturing and Distribution
- 10) Federal agency work, mainly offices
- 11) Retail
- 12) Entertainment e.g. casinos
- 13) Multi-unit, high rise residential

The segmentation has been driven by the need to consider different types of customer separately. Currently each office attempts to serve all 13 market segments and as such the company is set in a decentralized manner. Morse Diesel has considered condensing the 13 market segments in to 5 or 6



operationally based segments that will each be served by specialized operating groups. This group, while being based in certain locations, will be responsible for marketing in all the regions that the company operates. It will allow the company to put together teams that will be highly knowledgeable of a particular segments requirements.

The driving force behind this change is the availability of the organization's scarce resource; people. Morse Diesel is often perceived by customers both in the U.S. and abroad as being larger than it actually is, with only 400 employees. It is for this reason that it is unrealistic to expect each region to have a dedicated team for each segment.

Currently the correctional segment is served on a national basis by a dedicated team similar to those that are being proposed. The big advantage that this type of setup will provide for the marketing teams is a level of operational authority. Lack of authority is currently a real problem for the corporate marketing department, it is only able to make suggestions. The belief is that that once a level of authority is established then marketing will actually be in a position to impact the organization's success.

Morse Diesel believes that a likely breakdown for the purposes of the marketing groups will be the following:

- 1) Correctional
- 2) Health
- 3) Transport
- 4) Commercial
- 5) Industrial

The reason the company has chosen the segments it has is based primarily on the fact that these are the areas that are expected to provide the most abundant opportunities.

### Pricing

Prices at Morse Diesel are made up from two components, (1) the overall cost of the project (man hours and materials) and (2) the fee. Prices are developed on an understanding of the particular market and what it will bear, i.e. the customer primarily dictates the price. The factors that are considered at Morse Diesel in arriving at the final price include:

- 1) Historical levels for both the

customer and the type of project.

- 2) Level of manpower required and duration of the project.
- 3) Current market information, with regard to the likely prices among the competition.
- 4) The level of risk to be taken on by Morse Diesel.

Currently the prices are at very low levels as a result of the fierce competition and over capacity that exists. Construction services are viewed by the majority of customers as a commodity, and as a result there is very little margin for profit. In addition customers are being able to transfer increasing levels of risk to the contractor, simply as a result of the intense need for work in the industry. Morse Diesel feel that despite the pressure to do otherwise, it will refuse to take on the unreasonable levels of risk that are not uncommon among its competition.

Historically the industry average return on projects was of the order of 1% after all deductions for overhead and other contributions, i.e. net profit. Gross profit was typically

in the 4% - 5% range, before overhead etc. Currently however, gross profit has been depressed to between 2% and 2.5%. Since historically the overhead and other contributions constituted approximately 3%, profit is at best very limited and at worst can be negative. The result of this reduction in the acceptable level of gross profit is that Morse Diesel are very concerned about improving its overhead efficiency. Or in other words, the key to profitability currently lies not so much in the field operations, but in the ability to maintain very low overhead costs.

Morse Diesel have not found that they are being asked to provide increasing levels of service in order to remain differentiated. However the company has noticed increasing pressures to utilise non traditional approaches to traditional problems.

### **Promotion**

Promotional activity at Morse Diesel is currently thought to be too reactive in nature. The individual offices concentrate too hard on projects when and as they come up and not sufficiently on the customers themselves. Each office essentially finds project opportunities and then chases them, rather than the organization attempting to establish

stronger relationships with the customer groups. These relationships would provide two significant benefits. The first being information concerning possible upcoming opportunities and the second would be the ability to approach the customer on the basis of the information and propose solutions ahead of the issue of any RFP. As an illustration of the current emphasis on chasing projects approximately 90% of all work is completed as a result of having received an RFP, which had not been in any way initiated by Morse Diesel.

Despite not having put more emphasis on building and maintaining these relationships in the past, Morse Diesel does recognise the value associated with the relationships that it has with some customers currently. The value that exists is the level of mutual trust and understanding. The customer is comfortable knowing that there will be no "learning curve" and that the the company's ability is proven. Also Morse Diesel is aware of what is expected and that the customer will be fair and make the payments as and when they are due. Examples of customers with whom Morse Diesel has these relationships are the New York Stock Exchange and Miller Brewing Company.

In addition to the company

recognizing the value of the relationships it has currently, it perceives that this value will continue to increase. The reason being that more and more non-construction organizations are offering project and program management services. Hence Morse Diesel feel that having and effectively maintaining a larger number of these closer customer relationships will provide an excellent means of defence. Once a relationship exists it will be far harder for a competitor to establish themselves with the customer at the expense of Morse Diesel.

Once a project is awarded invariably the customers are left to be looked after by the project managers, the marketing personnel having moved on to obtain more work. This often causes a number of problems because many project managers at Morse Diesel do not see maintaining the customer relationship as a part of their job. The project managers are all too often unaware of the value associated with relationship building and maintaining. Morse Diesel see this as critical area for improvement, either by educating the PM's or by insuring that the marketing personnel that were involved with winning the project remain in contact with the customer's

representatives. The most likely solution will be a combination of the two, simply resulting from different peoples' perception of the importance of the activity.

At Morse Diesel the identification and subsequent approach of new potential customers is a very ad hoc process. The responsibility is given to the regional managers to find new customers and in most cases the approach of a new customer comes only after an opportunity is identified. The process is very much reactive as opposed to proactive, very little contact with new potential customers is made without concrete knowledge of an opportunity. For this reason the organization often faces considerable competition, since one or more of its competitors may have been involved before the RFP was issued and as a result have a greater knowledge of the project.

### **Information Resources**

The type, quality and storage of information at Morse Diesel is currently undergoing considerable change. Up until recently the main area about which information was gathered was the projects. Each project had its own file that contained a variety of information collected throughout the course of the work.

However the information recorded was primarily a function of the person responsible for the project and not of an organization wide standard.

The company had never formally compiled customer files, although currently it is in the process of setting up an integrated customer data base. This will enable it to track what work has been done for whom and when, and allow them to record the key contact people within the customer organizations. This information will provide them with a better understanding of the customer organization. For example who to approach concerning future projects to gain the greatest degree of influence.

The company has also never really recorded and maintained information concerning the profitability of different types of projects or customers. This is seen as one of the problems facing the company after it has set financial goals, since it has no hard data with which to assess which areas are most likely to provide the greatest of profit. Again this is seen as an area that must be included within the data base, i.e. it will be possible to cross reference by project type and customer to assess profitability statistics.

Trends within the market place are tracked by the organization. Employees are being assigned responsibility to track each of the segments that the company serves. They are responsible for monitoring the construction activity and be aware of any environmental changes generally that may alter the current situation within the market segment.

Another area that Morse Diesel follows is the performance of its competitors, although again it is done in a fairly informal way. The director of business development goes over any press articles found by a clipping service and in this way attempts to remain somewhat abreast of industry activity.

It is perceived by the Director of business development that in many ways the company still believes that it is unique within the industry. It is this that he cites as a major reason for some of the peculiarities that developed in its approach to gathering and compiling information and some of the other aspects of the business. Although in its early years Carl Morse really did provide a unique approach to construction, this was subsequently copied and adapted by many of the company's competitors. The Director of Business Development feels that this attitude

of essentially operating in a vacuum must change throughout the company if the organization is to remain competitive.

### **Who is involved with marketing at Morse Diesel**

The marketing at Morse Diesel was once performed at each office location by a business development manager. The performance of this set up were far from satisfactory and as a result the company reorganized the marketing function. Currently marketing at Morse Diesel comprises a corporate marketing group based in New York and then each regional manager is expected to organize and coordinate their offices' marketing activities. There is also a senior management group that reviews all project opportunities. This group also performs some of the relationship maintaining work, in particular Ed Collins, the President and Don Piser, the Chairman (as was mentioned earlier it is felt that this responsibility must be more widely dispersed).

The corporate marketing group consists of a Director of Business Development, a marketing manager and four other support personnel. They are responsible for overall coordination of the company's marketing and communications

activities and for providing support to each of the regional managers. They put together the promotional material such as the company brochure and the quarterly company newsletter<sup>4</sup>. They are also involved with making suggestions as to which areas the company should emphasize and for controlling the information resources. While they are responsible for overseeing the whole marketing and sales process they currently possess almost no authority and hence find that they are essentially limited to providing "optional" advice.

The regional managers who are supposed to organize their regions marketing efforts differ widely in their abilities and success. Some are excellent and require little external support, others receive sufficient attention from one or more senior executives that they perform well, however the remainder experience considerable difficulty.

The problem that each office faces, is that it is very difficult for any one of them to be convincingly all things to all people, and thus cover all opportunities. This is the driving force behind the proposed reorganization that was mentioned in the

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<sup>4</sup> The newsletter provides information concerning the progress of current projects and those that will be forthcoming. It is circulated among both the employees and the customers.

segmentation section. Another area that is of concern to the company is the type of people that are involved with the marketing activities. Currently many of the personnel that perform the marketing are project managers. These people often have not had much exposure to, or training in, marketing type activities and as such are often less successful than is hoped. The company feels that ideally it would like people that understand both marketing and operations. This type of person would have the ability to identify work, be sufficiently knowledgeable to portray the company's expertise convincingly and win the contract and finally understand the importance of maintaining customer contact throughout the course of the project.

### Control Mechanisms

Morse Diesel have historically exercised little control on the marketing activities within the company. As was mentioned in the information section the company have not kept records as to the profitabilities of different types of work and different customers. As a result there is little financial basis on which the company can prioritize project opportunities, or make decisions as to which areas it should

concentrate the marketing efforts on.

The company does occasionally turn down work although this has been a fairly rare occurrence. This was most often the result of unacceptable contract terms and not because of expected profitability (this not being accurately known) or lack of strategic fit. Recently however, the director of business development has assumed the responsibility for screening all project opportunities. This provides the organization with greater control over the projects that it accepts, hopefully improving focus and minimizing exposure to excessive risks.

Another reason for the lower level of control of marketing at Morse Diesel is the lack of a marketing budget of any form. Each project is considered on a case by case basis and an estimated cost for responding is developed. Since there is no budget there is no way of being able to distribute funds between projects in any logical fashion. The result is that annual marketing expenditure is prone to considerable variation and any attempt to forecast returns from the expenditure is very difficult.

#### **A note on the AMEC purchase**

Much of the marketing at Morse Diesel is in the midst of

reorganization. The company has recognized the urgency of the need to become more sophisticated in its understanding and application of marketing principles. It has however continued to be without a concrete plan that specifically lists its objectives and the means by which they will be achieved. It is hoped that the purchase of the company by AMEC will provide not only the incentive to become organized but the benefit of the parent company's appreciation and understanding of the value of marketing.

# **MARKETING CASE STUDY OF** **RAYTHEON ENGINEERS AND** **CONSTRUCTORS**

## **Introduction**

Raytheon Engineers and Constructors is one part of the \$ 9 B Raytheon Corporation. Raytheon employs 60,000 people and is involved with a multitude of technology based products and services, from aircraft design and manufacture (Beech aircraft) to its numerous defence projects (e.g. The Patriot Missile system). The organization's involvement with the design and construction of industrial facilities dates back to the late 60's. It was at this time that it acquired two sizable engineering and construction companies, United Engineers and Constructors and the Badger Company. These companies had grown, and have continued to do so through acquisition, however, they were run as separate entities until March 1993. At this time Raytheon decided to consolidate its engineering and construction capabilities and form a single organization, hence the birth of Raytheon Engineers and Constructors. Fig. 1 illustrates the major components of the organization along with associated dates in order to provide an indication as to the extent of their combined experience.

Today Raytheon Engineers and Constructors' 16,000 employees perform upwards of \$ 3 B work annually, in countries throughout the world for both public and private organizations (see fig. 2 for global office locations). The organization provides a complete range of services from preplanning and design through to construction, maintenance and

*This case study was prepared from an interview with Mr. V. Barry, Senior Vice President and general manager of Raytheon Engineers and Constructors' Hydrocarbons Business unit. May, 1994.*



even operation of various industrial facilities. As a further indication of the organization's size and global reach, the largest project in which it is currently participating is in Thailand valued at \$ 1.4 B.

The organization currently obtains the vast majority of its work as the result of a competitive bidding process, although a good fraction of this work is for repeat customers. The organization also obtains a considerable quantity of work as a result of its partnering activities. Examples of companies with whom Raytheon E & C has such agreements are Royal Dutch Shell, Merck and Bethlehem Steel.

### **The Importance of Marketing at Raytheon Engineers and Constructors**

Marketing at Raytheon E & C has become extremely important. Indeed, the driving force behind the recent consolidation was the desire for the organization to become more market oriented. The change in emphasis in marketing has also been driven at the corporate level, due to a shift in the organization's traditional markets. Historically the Raytheon corporation obtained a great deal of its work from government, and specifically defence contracts. Over

the last few years however, government spending in this area has been significantly cut back. As a result the company is having to look increasingly toward the private sector for markets for its technological expertise. The organization recognizes that it will only be able to successfully make the transition with a more thorough understanding of marketing.

Raytheon does not believe that marketing is any more important than say operations, or finance. However it is committed to bringing its expertise in the area up to the same standard as the other business functions.

### **What does marketing achieve ?**

Currently Raytheon believes that its marketing efforts provide the following:

- 1) A thorough understanding of its customers, their needs and specific areas of concern, through both broad and frequent contact.
- 2) An extensive understanding of the markets which they serve. Specifically identifying areas in which areas opportunities are most abundant and any

apparent trends.

This knowledge enables the organization to identify the most appropriate range of services and achieve the desired level of sales within the organization's chosen markets. It should be highlighted here that Raytheon E & C perceives marketing to be an infrastructure function responsible for making sales.

Raytheon E & C recognizes that its marketing abilities are far from completely developed. Specifically, in the future, the organization wishes to improve the efficiency of the process. In order to achieve this it has identified two areas in which it will concentrate. The first, is that it wishes to achieve the same level of control over marketing as it has with both its operational and financial activities. Raytheon E & C perceive that the effectiveness of marketing is currently too dependent on the individuals involved. The organization does provide some recommendations, although, as yet there are no firm guidelines and the individuals have a considerable degree of latitude.

The second area which Raytheon E & C has identified as a means to improve efficiency, is the people that it employs to perform the

task. In the future, Raytheon E & C would like to find and employ a greater number of more talented salespeople. Although it maintains that these salespeople must also have the engineering background that is perceived to be essential in the areas in which the organization competes.

### **The marketing strategy development process**

Strategy development has two major parts at Raytheon. The first of which is at the corporate level, where plans are developed annually that look forward, for between three and five years. These plans assess the opportunities available in each of the corporation's major areas of business, engineering and construction being just one of them. The exercise allows the company to forecast activity in each of the areas, and thus divide the broad financial objectives appropriately between them. For example, this activity enabled the organization to identify the falling demand for government / defence projects, and thus redistribute resources in order to minimize expected shortfall. The organization perceives that it performs this level of planning very well.

Within the engineering and construction division, each business

line, e.g. Hydrocarbons, is responsible for developing its own specific strategies and identifying which services it should offer. In order to do this the planning group meet on a monthly basis to assess the state of each of the markets in which it operates. These markets are based on both different types of service and different geographic regions. The objective of these meetings is to identify those markets that show high potential and to allocate resources accordingly. An example of this is provided by the Hydrocarbons units current concentration, and success in both the Latin American and Asia / Pacific markets.

Another example of the identification of an opportunity and then development of appropriate services is illustrated by the recent introduction of water management services. The organization saw the potential for hydro- electric power in South America and Africa and developed a range of services specifically targeted at this market.

The decision as to what combination of services to offer is made by each of the business lines, but is very much dependent on the specific project opportunity. Fig. 3 provides a list of the extensive range of professional and technical services

from which each of the business lines can draw as appropriate.

Selecting the areas that are to be promoted to the customer as a means of differentiation is done very much on a case by case basis. The responsible business line assembles a team of people including salespeople, technical personnel and members of the management team. This team then discuss and develop a “win strategy” based on all the information available and the input of each member of the team. The win strategy is essentially the approach that will be utilized in pursuing the project, including explicitly defining the areas of differentiation. A key concern at Raytheon is that no point of view is overlooked, hence the involvement of a complete spectrum of personnel.

Raytheon E & C perceives that the value it provides its customers stems from two principle areas:

- 1) its value engineering expertise, in the case of construction its project management skills.
- 2) its technological differentiation and validation ability. This is based on its highly extensive systems and process experience and expertise.

The belief at Raytheon E & C is that the marketing strategy and business strategy are completely intertwined. As an example, it was sighted that a part of the hydrocarbons business strategy is to develop its expertise in the areas of gas process and process maintenance. The marketing strategy is thus specifically developed in order to achieve these strategic objectives.

Business development and sales are viewed at Raytheon E & C as being components of the marketing activity. There are however some differences in the approach taken by the organization depending on whether it is looking at domestic or international opportunities. The differences lie mainly in the organizational structure, an area which will be discussed in the section titled "who is involved".

### **Services offered**

Raytheon E & C is one of the largest engineering and construction organizations in the world. As a result they offer an extremely broad range of services, as illustrated by fig. 3. The concentration of Raytheon as a whole is very much technology. As such Raytheon E & C have extensive engineering, design, systems and process development teams, in

addition to their construction and management capabilities. They also have the ability to offer financing options to customers, which can, particularly in today's economic environment, provide the crucial catalyst for many large projects. In order to provide greater context to the services the organization provides it is useful to consider the way in which the company segments its markets.

### **Segmentation:**

The following is a list of the segments in which Raytheon E & C compete:

- 1) **Hydrocarbons:** including work for the customers in the oil and gas production and processing industries. This segment represents approximately 30% of volume.
- 2) **Power:** including the design, construction and start up of fossil fuelled generating facilities. Also covers engineering, construction and maintenance services to the nuclear power industry. This segment represents approximately 30% of volume.
- 3) **Metals & Mining:** including the

engineering and construction of blast furnaces, casting, rolling and ore treatment facilities. This segment represents approximately 15% of volume.

operation of pollution control systems for solid, water, air and nuclear contaminants. This segment represents approximately 5% of volume.

4) Food & Consumer: including the design and construction of processing facilities for products such as cereals, beverages, tobacco, detergents and confectionery items. This segment represents approximately 5% of volume.

Raytheon state that there are two reasons driving this method of segmentation. The first is the customer requirement for individual consideration of its industry, i.e. specialisation and dedication. The second reason is technology based, that is to say that each of the segments require emphasis in different areas and specific expertise.

5) Pharmaceutical / Biotech: including design, construction and validation of new or modified research and development facilities. This segment represents approximately 10% of volume.

Raytheon E & C has selected these particular markets for three primary reasons. These reasons are:

6) Infrastructure: including design and construction of transportation projects such as mass transit systems, bridges, tunnels and waste treatment facilities. This segment represents approximately 5% of volume.

- 1) the size of the market
- 2) the international characteristic of the market
- 3) the profitability of the market

7) Environmental: including the design, installation and

In addition the company recognizes that its history and structure has played a significant part in the company's current positioning. Fig. 1 illustrates how the company today is the result of the combination of a number of different organizations, each with specific areas of expertise.

Some of these organizations overlapped to a certain degree and one of the objectives of the consolidation was to provide greater coordination between the different areas of expertise. Combining the different customer bases and consolidating the organization's structure was intended to provide enhanced potential. Previously the existence of separate organizations did not facilitate the sharing of access to common customers that is feasible now.

### **Pricing**

Prices are developed at Raytheon E & C on the basis of the organization's ability to source both equipment and materials throughout the world, and a highly disciplined procurement process. These abilities combined, allow the organization to establish a competitive estimate of the cost for any project. Raytheon then considers the level of risk involved and reviews its policies and guidelines regarding acceptable levels of return and hence develops a price. Fundamental to the process is that each case must be considered individually and that it is essential for the organization to carefully assess its exposure to risk.

The level of risk is a function of a number of factors. One of the most

important to Raytheon is the contract and its terms. For example it understands that on a large GMP contract its exposure to risk is significantly higher than on a cost reimbursable project. Hence in the case of a large GMP contract the organization has a significantly higher target level of return.

Raytheon E & C feels that it is essential for it to continue offering greater levels of service while maintaining price. It perceives that this is a crucial way by which it can maintain a level of differentiation when compared to its competitors. It certainly does not believe that this practice is in any way detrimental to the organization. Raytheon E & C perceives that the customer will recognize this dedication to extending and improving its services and hence hold the organization in higher regard. It also suggests that this way of thinking is an excellent means of driving the company to find ways of improving efficiency and identify unique areas of service opportunity. A result of this philosophy is the companies development of ongoing maintenance services and also its adoption of equity positions in certain projects.

## **Promotion**

Promotion is viewed at Raytheon E & C to be centered around one activity in particular, that is its contact with customers. The company recognizes that its relationships furnish it with vital information, concerning project opportunities and customers' principle areas of concern. It estimates that 90 % of the projects that it performs are identified and won as the result of the its client contact programs. The remainder of the work is the result of responding successfully to a public bid invitation about which the company had no prior knowledge.

The organization considers its relationships with its customers to be of the utmost importance, indeed they are perceived to be the "essence of the business". The types of projects which Raytheon E & C perform can only be obtained by continuing to satisfy customers needs, who then return to Raytheon for future projects. Raytheon also recognises that the projects it routinely performs require an extremely high level of trust on the part of the customer. The customer must understand that Raytheon has not only the operational expertise, but the financial wherewithal and the communications skills that are both

essential for a project to be completed with the minimum of risk.

Raytheon maintains its excellent customer relationships in a number of ways, not the least of which is its continued operational excellence and performance. In addition to this it has established an account management program, the result of which is that every customer is assigned a specific marketing contact. In the cases of very important accounts, in addition to the account manager a VP (or executive sponsor) will be assigned, hopefully signalling the company's commitment to the relationship.

Another way in which the relationships are nurtured is the extension of marketing personnels' responsibility beyond simply winning contracts. They must also act as a sounding board throughout the execution of a project, to insure that any concerns are identified and addressed in a timely fashion.

The identification of previously unserved customers is also a key element of the promotional activity. Despite differences in approach, each business line performs the task in a methodical fashion. For example in the cases of the Hydrocarbon and pharmaceutical business lines, an excellent means of identifying

attractive potential customers is by looking at their R & D budgets. This simple measure provides an indication as to who may be developing new process techniques.

In addition the organization considers that an important promotional activity is the attendance of various industry forums and conferences. This activity both maintains the company's contact with its customers and keeps it up to date with important advances in technology.

### **Information resources**

The first area about which Raytheon keeps accurate records is the relative profitabilities of both different business lines and even specific customers. The organization understands that not only are there variations between different business lines but also between customers within the same business line. It is essential for the company, if it is to maximise profit, that it is aware of the value placed on its services by different customers. At Raytheon E & C, marketing is responsible for prioritizing business development efforts based on the relative attractiveness (i.e. the potential for profit) of different customers. The organization understands that the

profit potential of any customer is based on two principle factors. The first of which is relative supply and demand within the market and the second being the level of value added desired.

Raytheon do keep customer files, although it is perceived that they are not as accurate, or as well organized as they might be. This is largely a result of the recent restructuring, despite an attempt at consolidating all the information.

The organization also keeps close tabs on the environment in which they operate and specifically on the development of any new trends. An example of the type of information that interests the hydrocarbon unit is, the different oil companies production and refining capacities and their levels of utilisation. Two other good examples of environmental tracking are provided by the power business line. The first being that it closely follows relative supply and demand for electricity in different countries and regions across the world. The second is its observation of the current trend toward privatization of power supply in Brazil.

The final area about which Raytheon is interested in gathering information concerns its competitors. It is particularly interested in learning



about any strategic shifts in emphasis, for example either the closing of an existing office or the opening of a new one. While the occurrence itself is significant, of higher importance to Raytheon, is establishing the motive behind the change. It should be noted that of all its information gathering exercises Raytheon perceives that this area is performed least formally, although carefully.

**Who is involved with marketing at Raytheon Engineers and Constructors**

The marketing process at Raytheon E & C is divided among a number of different groups. The organization has a central department responsible for many of the support activities, such as preparing corporate brochures, developing prospect lists and issuing press releases. In addition each business line has its own specialized marketing group that is responsible for knowing and understanding its customers and their operations well. These groups are also responsible for insuring that their customers are kept up to date with the organization's capabilities and any new service offerings. The final responsibility of the business line

specific groups is to generate the most profitable opportunities for the organization within its chosen areas of operation.

An interesting point to note is that Raytheon utilizes a different approach when dealing with international markets. International business development is coordinated by a separate corporate group, that has reporting to it regionally based organizations. These regional groups have their own staff and are headed up by a Vice President. They are responsible both for building local alliances and identifying opportunities across all of the company's business lines.

Having identified a specific opportunity the regional group then contacts the relevant specialist group. In cooperation the two groups then develop a proposal, insuring that it addresses the need for both an understanding of the local environment and specialist technical expertise. In addition the international group becomes involved should one of the specialist domestic groups find an opportunity with an international customer.

Almost all the personnel involved with marketing at Raytheon have engineering backgrounds. The organization feels that an engineering

background is essential in the markets in which it operates. That is to say, it perceives that one of the best ways it can make its expertise clear is to have salespeople that are fully conversant with the customers technology.

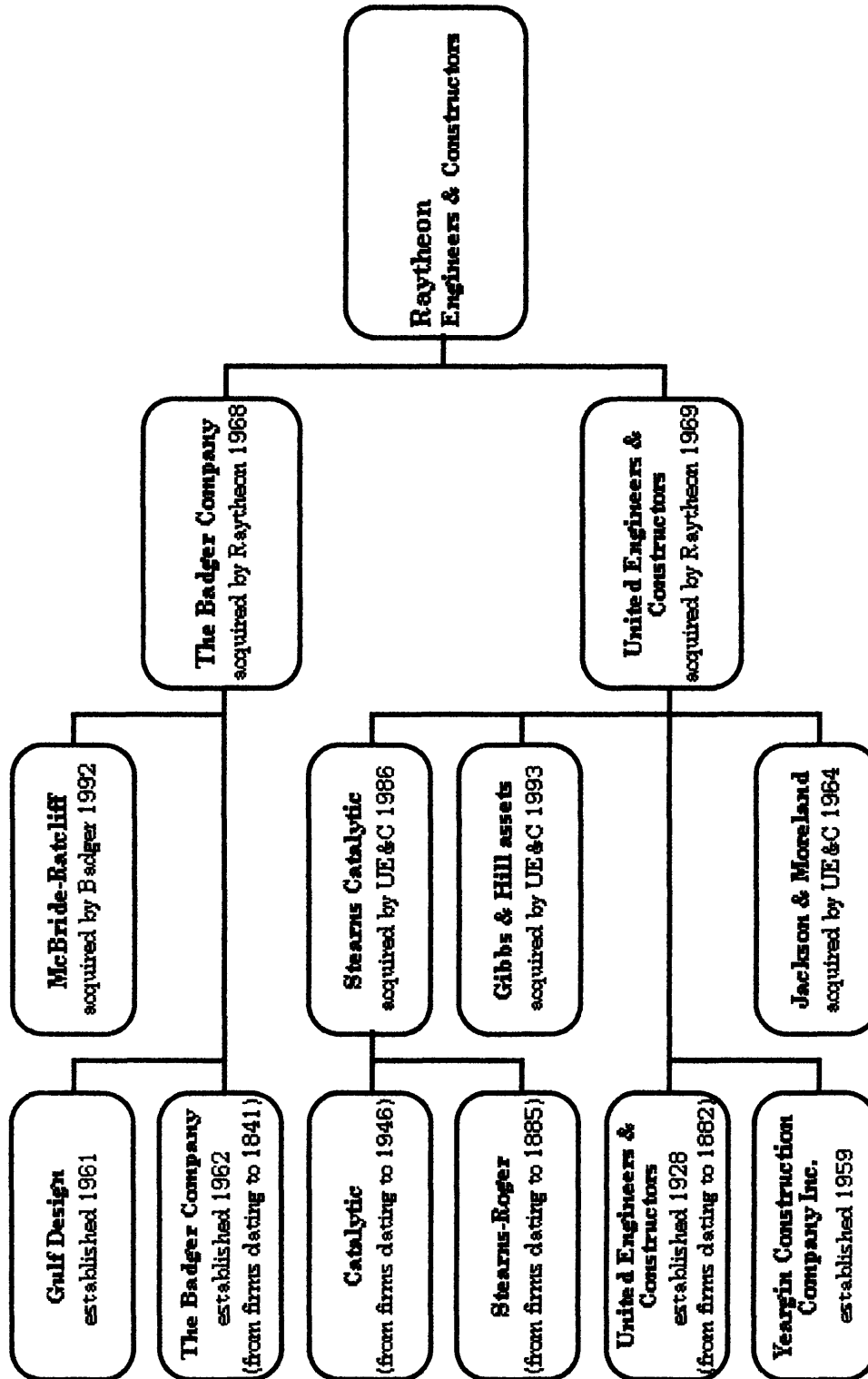
Raytheon does not feel that the absence of professional salespeople as opposed to engineers is detrimental to its performance. However, as was sighted previously it is interested in obtaining experienced engineers that are also comfortable, and hence efficient salespeople. This is a combination of abilities, that while not too common would certainly only enhance the organization's performance.

**Control mechanisms**

Of critical concern at Raytheon, as was mentioned previously, is the control that is exercised over the marketing process. The organization currently utilizes a number of mechanisms in an attempt at controlling the marketing activity. Firstly, they will turn down work if they are in any way uncomfortable with the proposal. Some of the reasons why Raytheon might refuse to pursue a project opportunity include:

- 1) Incomplete project proposal details.
- 2) Distrust of the customer, i.e. history of confrontational approach or of withholding payments.
- 3) Too many competitors.
- 4) The perceived level of risk is too high.

Raytheon also uses its understanding of the variations in profitability to prioritize its marketing activities. Each business line uses its monthly meetings in order to define as early as possible in which areas it will concentrate its marketing activity. These decisions are made with consideration of both the company's understanding of variations in profitability (as discussed previously), and forecasted demand within the different segments. It is using this information that the Raytheon E & C is able to most appropriately distribute the marketing budget, with the intention of maximising the profit attainable by the organization.



**Figure 1. An illustration of the major components of Raytheon Engineers and Constructors.**

**France**

14 Rue Des Gaudines  
78100 St-Germain-En-Laye  
Paris

**Germany**

Kreuzberger Ring 21  
6200 Wiesbaden

**Italy**

Via Vincenzo Monti, 51  
20123 - Milano

**New York**

11 Penn Plaza  
New York, NY 10016

**Pennsylvania**

460 E. Swedesford Road  
Valley Forge 19482

**Puerto Rico**

Metro Park 7, Suite 304  
Metro Office Park  
Camparra Heights 00968

**Saudi Arabia**

P.O. Box 7275  
Jeddah 21462

**Thailand**

Asia Badger Inc.  
Dusit Thani Building  
Room 904  
Bangkok

**South Africa**

P.O. Box 585  
Douglas Roberts Center  
20 Skeen Boulevard  
Bedfordview 2008

**Taiwan**

c/o Gibsin Engineers, Ltd.  
233 - 1 Paochiao Road, 6 Flr  
Hsintien, Taipei 231

**Tennessee**

Suite 250  
2550 E. Stone Drive  
Kingsport 37660

**Tennessee**

Suite 480, Building D  
9111 Cross Park Drive  
Knoxville 37923

**Texas**

7720 Langtry  
Houston 77040

**Suite 300**

8313 Southwest Freeway  
Houston 77074

**Virginia**

Suite 102  
2701 Emerywood Parkway  
Richmond 23294

**Venezuela**

C.I.C.  
POBA International # 233  
P.O. Box 02 - 5255  
Miami, Fl 33102 - 5255

**United Arab Emirates**

Dubai World Trade Center  
Box 9385, Dubai.

### **Engineering**

- feasibility studies
- technology evaluations / HAZOP
- architectural design, master planning
- systems / facility engineering
- geotechnical engineering
- conceptual, preliminary, detail design
- 2D, 3D computer - aided design
- Computer Integrated Manufacturing / Automation
- technology licensing
- process design / validation
- commercialization of new technology
- advanced analyses, systems studies
- modeling - physical, computerized
- pilot plant development
- construction follow - on consultation

### **Environmental**

- environmental assessments / audits
- siting, licensing, and permitting
- air / water / solid waste treatment
- hazardous waste management
- restoration, remediation
- laboratory analyses and testing

### **Construction / Maintenance**

- constructability, operability
- construction management
- construction
- modular construction
- field support services, procurement
- plant safety
- testing, startup and training
- plant life extension, modification, retrofits
- plant operation and maintenance
- maintenance management systems

### **Project Management**

- estimating, cost engineering
- planning and scheduling
- worldwide procurement, expediting, traffic management
- reliability and quality assurance
- Raytheon Quality Management
- logistics
- value engineering

**Figure 3. Raytheon's Professional and Technical Services.**

# **MARKETING CASE STUDY OF THE TURNER CORPORATION**

## **Introduction**

*This case study was prepared from an interview with Mr. A. Sanchez, Executive Vice President and Director of Business Development at Turner Corporation, February 1994.*

Company history began in 1902 when Henry C. Turner and D.H. Dixon founded the Turner Construction Company. The founders saw an opportunity and raised sufficient capital to buy the rights to the new Ransome system of building (essentially steel reinforced concrete). This technology had a profound effect on the industry in the early 1900's and continues today to provide a valuable alternative to steel. The company first demonstrated the techniques performance when they were awarded a contract to construct some of the first New York subway stations stairways. The publicity, subsequent safety trials and proven success led to a stream of contracts and further applications of the new building method. This coupled with a strong commitment to continuing innovation, quality and integrity that continue to this day have enabled the company to continue to grow considerably in the last 92 years.

Today The Turner Corporation is a holding company that is engaged together with its subsidiaries in general building construction, construction management and program management in the United States and overseas, see fig. 1 for office locations.. Although, it has been involved in the real estate business, it is currently in the process of divesting all intersets in that area. As an indication of its size it collected revenues of \$2.64 billion in 1992, has about 6 million shares on the American Stock Exchange and currently

employs approximately 2,500 employees of which 1,400 hold supervisory positions, see fig. 2 for the organizational structure. It should be emphasised that the company mostly acts in a supervisory role either employing and paying subcontractors itself or controlling those selected by the client. Of the total volume approximately 60% is work for repeat customers and of the order of 80% is negotiated as opposed to lump sum work. The result of these statistics is that The Turner Corporation is and has been for a number of years one of the largest building contractors in the United States.

### **The Importance of Marketing at Turner**

Previously marketing was considered to be "unnecessary" as Turner did not really concentrate on *selling* in any way. It was sufficient for it to be excellent at what it did (or concentrate on operations) and customers approached it on the basis of that; its reputation. There was no obvious reason to be concerned about marketing activities, business was abundant and the rate of growth was healthy. Until more recently the range of segments served was a function of what the organization was asked to build, by whom and where. It

was certainly not considered that these decisions could provide any really significant input to overall strategy.

Now marketing at Turner is considered to be the most important business function. That is not to say operations, finance and human resource management are unimportant, just that the current area of concentration is elsewhere. This is in stark contrast to the historic position of marketing within the organization, somewhere way down on the list, and even up from last year. It would be fair to say that in the last few years there has been an organizational awakening regarding the significance of marketing with respect to Turner's future success. As a result the corporation invests approximately 10% of its income in marketing activities and considers marketing information to play a critical role in the development of company strategy.

### **What does marketing achieve:**

The marketing efforts at Turner today are used to actively track trends in the market-place, as the result of changing customer requirements. This information is then used to develop the company's

strategic plan in order that it may pro-actively seek to intercept and evolve with those markets ahead of the competition. Although marketing has progressed considerably within the organization its development is far from complete. The future thrust of marketing, it is believed, should be two fold:

(1) To reduce the time taken for information to travel from source to Head Office and then to be distributed to and used by all areas that need to know. Essentially to improve organizational learning and communication.

(2) To educate and impress upon the whole organization the value associated with the development and maintenance of long term customer relationships. In this manner improving the probabilities of obtaining repeat business with reduced levels of competition and simultaneously im-proving the efficiency of marketing expenditures.

### **The marketing strategy development process**

At Turner this process is done formally three to four times per year by the strategic planning group. It draws upon all the information of the current market position and of the

underlying trends indicated by the market research. The underlying belief is that by utilising a "rifle" approach and thereby focusing the plan in specific markets the highest level of perceived differentiation is achieved in the eyes of the customer. This is consistent with current strategic thinking, i.e. specialisation, perform only those tasks at which you are one of the best otherwise obtain the service from the most highly qualified and experienced provider.

In addition there are monthly marketing meetings at which progress is monitored, and any attractive opportunities falling outside the desired areas may be considered. A decision on these projects is made by consensus and, as a result some may be undertaken. However care is taken to ensure that these exceptions do not distract the organization from its fundamental strategic objectives.

Turner believes that the value they provide their customer's is made up from a number of factors. These include, reputation, integrity and operational excellence but considered to be the most important, is effective communication. This less intuitive aspect of value has been indicated as the result of customer surveys



undertaken by Turner, in which the questions,

**What service does Turner provide ?**

**What service is really desired ?**

were asked. The results indicated that there has been a considerable change in emphasis over time. Although the once most important consideration of financial risk ( thus lump sum work ) is still important, it has been overtaken by concern about the ability of the contractor to communicate effectively. This included both communication with the client, architects and sub contractors. This strongly indicates the need for a fresh approach to the contracting procedure and a rethink of the the adversarial relationships that have historically typified the industry.

It should be noted that the results of these surveys differed considerably from those expected. In fact, until the results were obtained a large fraction of the organization believed that the whole idea was unnecessary, since the answers were already known. It may seem like a small achievement, but in reality simply asking the customers for their

opinions required a major change of attitude within the organization (taking several years). Additionally customers were actually flattered to be asked, as if they felt that before their opinions didn't really matter.

The above example provides an excellent illustration of how the industry as a whole exhibits very high levels of inertia. That is to say any changes in business practice and thinking do not occur overnight, despite any amount of logic or rationality.

An important point to note about Turner is that it now considers its marketing strategy and its business strategy to be synonymous. The company also believes strongly that levels of remuneration should be directly tied the the achievement of the mission statement. In this way it is endeavouring to ensure that the entire organisation is correctly incentivised to act consistently with the chosen direction.

Turner views planning, business development and sales to be integral parts of the marketing effort. The differentiable factor between these three components is considered to be the **time frame**, starting at 18 - 24 months and moving down though quarterly and day to day respectively. It is with this background that Turner

attempts to organise its marketing efforts.

### **Service**

The Turner Corporation provides general contracting, construction management and program management services. However to more fully understand the range of services offered (the breadth and depth of the product offering) it is useful to consider the market areas in which Turner operates, hence its segmentation.

### **Segmentation:**

Segmentation is viewed at Turner as a strategic tool and is done in order to group customers by their need for different services. The following list illustrates the traditional segmentation employed by Turner:

Commercial  
Hospital / Health-care  
Manufacturing  
Education / Science  
Public  
Amusement  
Misc. Non-Residential  
Hotel  
Justice  
Other

volume of work completed in some of these segments over the last five years. It also indicates the percentage penetration of the whole markets achieved by Turner.

It is important to understand that the segments listed provide only the broadest groupings. Within each of these large segments considerable differences may still exist in customer requirements. In order that Turner may provide a correct balance of services it is often necessary to further subdivide the segments. The purpose segmentation at Turner is that it is driven by the customer and is always based on augmenting the perceived specialisation and hence differentiation.

There are three principle requirements that attracts Turner to these segments:

- (1) Strong growth rate (or potential).
- (2) Turner can successfully add value, hence differentiate itself.
- (3) Profitability.

Fig. 3 provides a breakdown of the

## **Pricing**

Pricing at Turner is very complicated, despite very precise guidelines<sup>1</sup>. The real problem stems from the nature of the competitive environment, and the fact that every project is unique. Not only are all the projects different but each is bid or negotiated with different competitors and under different circumstances. The result being that each opportunity must be considered on a project by project basis with regard to price.

Target levels of return are established for each project on the basis of ; assessed risk, probability of winning and value, in terms of possible repeat work (good will) and reputation. These levels vary considerably depending on projects and the quantity of work actually completed in any time period and segment compared with the quotas established previously.

One interesting and important phenomenon is being felt at Turner. That being, increasing levels of service are required without associated changes in price in order that differentiation is maintained.

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<sup>1</sup> Turner reasonably declined to divulge precise details of these guidelines due to the open nature of this papers readership.

## **Promotion**

Projects are identified and pursued by a variety of means, but the most important ability to Turner is to get involved as early as possible. In this way they have a significantly improved chance of winning the final contract. This essentially requires the maintenance of close contact with the organizations within the segments Turner serves.

The ability to, and power of, networking is extremely important to Turner. They aim to obtain knowledge of projects as early as possible so that they may pursue them both effectively and ferociously. In order that this information is obtained in as timely a fashion as possible they employ a variety of different tools. They participate in industry trade shows and exhibitions and attend those of the various industries with which they do business. In addition it is seen as everyones responsibility to "keep an ear to the ground" and report anything that may allow Turner to prepare ahead of the competition.

To maintain certain large existing accounts have assigned "custodians". These are senior company executives that are required to visit their company a minimum of four times per year to discuss possible project opportunities. Other smaller

accounts are not ignored either as the environment is such that the customers have very short memories. Therefore it is essential to remain in contact and to remind the customers of the company's capabilities and especially any new ones that may be of particular interest.

In the last year or so Turner has begun to increase its emphasis on developing national accounts. This type of account provides companies, many of whom have done or are undergoing downsizing the opportunity to reduce the time spent with contractors all over the country. They can deal with the head office only and then Turner can implement the plan on a national basis, eliminating the necessity to involve many customer facilities people. An example of this is Turner's work with Circuit City, refitting existing and constructing new stores. The creation of these accounts is facilitated by the identification of a "gatekeeper" within the target organization. This person can then be approached and has sufficient influence to enable the offer to be considered seriously. Turner has a considerable advantage in this respect over much of the competition, that is its unsurpassed spread of offices nationwide as indicated by fig. 1.

One of the areas of concentration within Turner currently, as has already been mentioned, is the thrust to clearly appreciate the value of their relationships with customer. They are one of the most important resources available and must not be neglected or undervalued. These relationships can not only provide direct project opportunities but also can assist with the identification of other leads within their industry. This being because many of the industries served behave like closely knit communities despite their competition, and as a result there is considerable transfer of information regarding new plant or facility expansion.

In addition to those with customers, other non-customer relationships can often provide important routes to new customers. Turner understand that through introductions made by other contacts they may have the opportunity to visit a potential customer that they might not otherwise been able to meet.

To Turner the key is not how many RFP's they receive or respond to, but how many they are instrumental in developing. If they get involved early and help the clients develop their plans, they will be in an

exceptionally strong position to provide the subsequent construction services.

### **Information Resources**

Turner see information as being essential if they are to remain competitive. They keep records of several types including project files, customer files, market trends and competitor files. They feel that having the right information available to the relevant people as and when they need it will play an increasingly important role.

The most obvious of records are accurate and constantly updated project information. These include both details regarding work already underway and the status of bids and proposals for contracts that have yet to be awarded.

Turner has a computerised customer file system based around the Lotus Notes software. This includes all manner of information e.g. projects undertaken, who was the responsible party in both the owner organisation and at Turner, who were the key contact people who the competition were etc. In addition to strictly business related information there are accounts of peoples main characteristics and perceived "hot buttons" even their golf handicaps! All

of this information may be cross referenced by project type, customer and industry and be used in subsequent dealings with the customer.

Also, although it is done less formally, tabs are kept on the important trends within the segments Turner operates and for the construction industry in general. This is seen as very important at the corporate level, however, some of the regional offices take it more seriously than others. This last point is another example of the cultural inertia, i.e. it was not seen as being as important in the past and thus takes time to gain acceptance.

Another aspect of the information gathering at Turner is that concerning their competitors. As has been mentioned every project that is pursued by Turner goes on file. Particular attention is given to the successful contractor, if indeed it is not themselves. They also make every effort to ascertain why the project was lost by them and ensure that this is recorded. When asked how accurate they believe the information to be, they replied very accurate, highlighting the value with which they view said information.

**Who is involved with marketing at Turner**

Currently the marketing function is set up to include a central office consisting of Mr. Sanchez and two others. In addition every territory has its own marketing and sales personnel. The central office is responsible for providing support functions such as promotional material, market research, territorial data analysis and overall strategy development and coordination. The regional offices are responsible for implementing the strategy, obtaining the desired volume of work (sales), maintaining contact with customers and gathering all the local market information for transmission to headquarters.

Turner wishes to regionalise the effort and in effect gain a greater degree of control and consistency throughout the organization and to specifically improve the efficiency of communications. In the proposed system there would be four regional managers that would attempt to achieve this. Each would be assigned a number of territories for which he or she were responsible and they would report back to the corporate offices.

The four regional managers would specifically provide two great advantages:

- (1) Improved levels of contact between customers and senior company executives.
- (2) Better analysis of the territorial data, due to their close proximity and thus better understanding

This would provide the central office with both **more accurate and more timely** information from which to plan strategy.

Another area of interest to Turner is the backgrounds of the people performing the sales function within the territories. There is growing realisation that operationally minded people are frequently not well suited to the task of selling. There is a thrust to obtain more business oriented individuals that have been exposed to the operations but that have a broader perspective. The two essential characteristics identified by Turner are:

**a passion for building, and  
excellent interpersonal skills.**

Knowledge of the construction operation may be learned and thus being an engineer is by no means a

prerequisite.

### **Control Mechanisms**

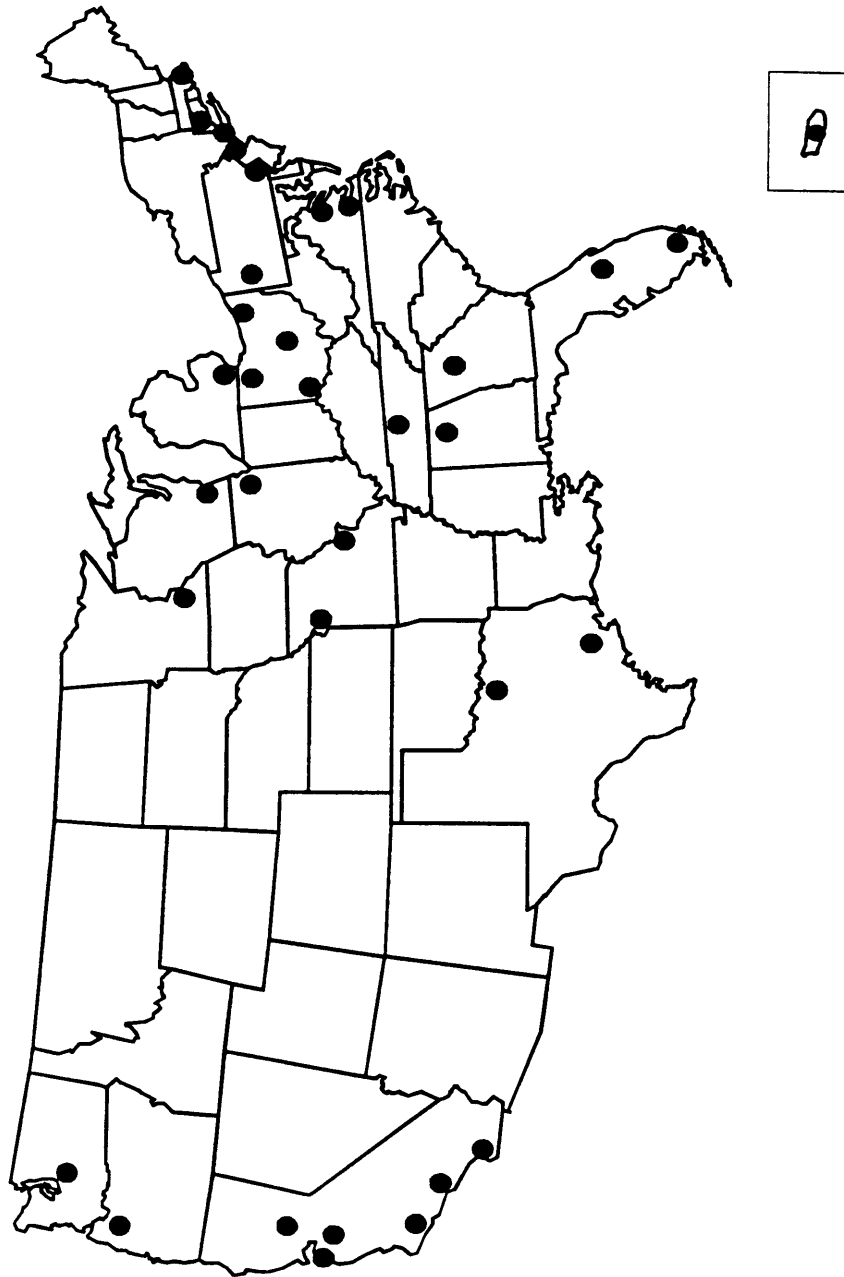
In order to keep a check on the marketing activity several control mechanisms are in place at Turner. Firstly the annual marketing plan is accepted by the board of directors, this being broken down by territory including projected levels of return. There are monthly marketing meetings at which any shortfalls may be discussed and plans made to remedy the situation if applicable.

The projected levels of return on any single project may be assessed fairly accurately with Turner's knowledge of the client and the type of project, facilitating the forecasting procedure. This same ability provides Turner with the grounds and thus the ability to turn down if profitability is doubtful. In the case of a previously unknown customer, Turner does a considerable amount of checking to ensure the project does not entail too greater risk (this can be done just by asking pertinent questions of the right people). For example, if the customer has a dubious payment record or is in any way untrustworthy Turner will decline the work.

In its development of new markets it defines time horizons for the return and should this be exceeded

then Turner will cut its losses and look elsewhere. Similarly marketing expenditure is set during the budgeting period and is subsequently carefully monitored to ensure over or underutilisation does not occur.

**TURNER CONSTRUCTION COMPANY  
OFFICE LOCATIONS**



**Figure 1. Turner's Major North American Office Locations**



# The Turner Corporation Corporate Organization Chart

January 14, 1994

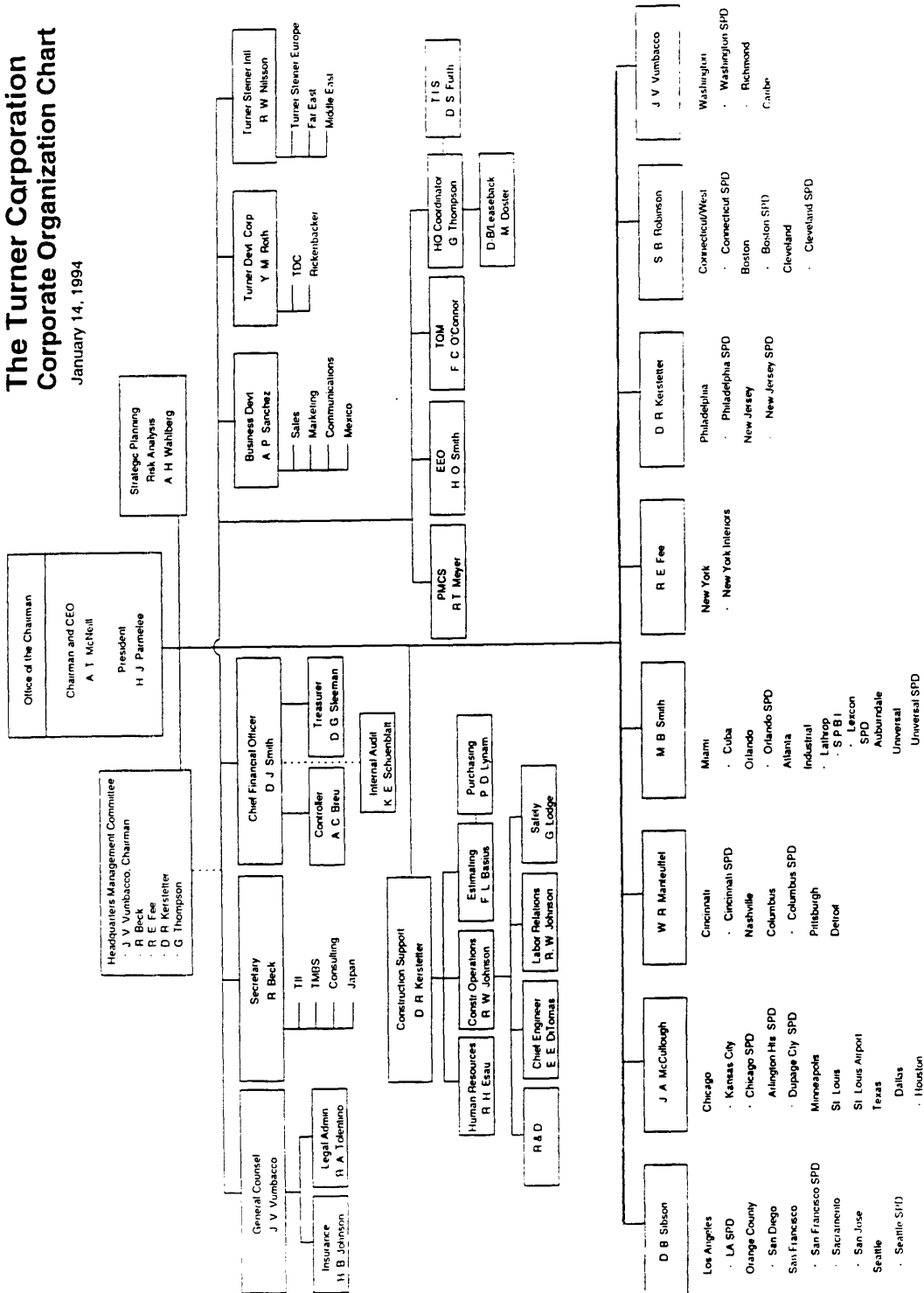


Figure 2. Turner's Corporate Organizational Structure

**Market Activity by Building Type**

	<b>1989*</b>	<b>1990*</b>	<b>1991*</b>	<b>1992*</b>	<b>1993*</b>	<b>1994**</b>
<b>Commercial</b>						
Dodge Market	47,600	40,500	30,300	30,000	31,400	35,200
Turner Share	1,771	831	716	631	1,042	
Penetration	3.72%	2.05%	2.36%	2.10%	3.32%	
<b>Hospital/Healthcare</b>						
Dodge Market	8,800	9,100	9,600	10,800	9,900	9,900
Turner Share	396	961	736	1,074	503	
Penetration	4.50%	10.56%	7.67%	9.94%	5.08%	
<b>Manufacturing</b>						
Dodge Market	7,200	5,900	5,600	5,600	5,600	6,400
Turner Share	266	478	175	273	144	
Penetration	3.69%	8.10%	3.13%	4.88%	2.57%	
<b>Education/Science</b>						
Dodge Market	14,400	15,400	17,600	16,200	18,000	19,600
Turner Share	203	289	368	398	183	
Penetration	1.41%	1.88%	2.09%	2.46%	1.02%	
<b>Public</b>						
Dodge Market	5,100	5,700	6,100	5,700	3,800	4,500
Turner Share	167	325	470	402	243	
Penetration	3.27%	5.70%	7.70%	7.05%	6.38%	
<b>Amusement</b>						
Dodge Market	4,900	5,200	5,000	5,400	6,400	6,800
Turner Share	69	189	250	54	373	
Penetration	1.41%	3.63%	5.00%	1.00%	5.83%	
<b>Misc. Non-Residential</b>						
Dodge Market	2,800	3,000	2,900	3,000	2,500	3,100
Turner Share	24	31	68	246	79	
Penetration	0.86%	1.03%	2.34%	8.20%	3.16%	
<b>Hotel</b>						
Dodge Market	6,500	4,400	2,800	3,300	3,000	3,500
Turner Share	118	124	4	6	24	
Penetration	1.82%	2.82%	0.14%	0.18%	0.80%	
<b>Other***</b>						
Dodge Market	8,700	7,600	6,600	6,000	6,100	6,700
Turner Share	147	140	11	31	50	
Penetration	1.68%	1.84%	0.16%	0.51%	0.82%	
<b>Totals</b>						
Dodge Market	106,000	96,800	86,500	86,000	86,700	95,700
Turner Share****	3,161	3,368	2,798	3,114	2,641	
Penetration	2.98%	3.48%	3.23%	3.62%	3.05%	

\* TCCO Customized Market Data from F. W. Dodge

\*\*1994 Amounts Adjusted by General F.W. Dodge Market Projections

\*\*\*Other = Religious, Large Apartments, Non-Building

\*\*\*\* Turner Share includes Domestic only (not International or Canbe)

**Figure 3. The Distribution of Work Among Turner's Major Segments**