PLANNING FOR EVERYTHING -- EXCEPT THE COMPANY'S FUTURE

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Many construction company owners do not place much stock in strategic planning. One reason is the correlation between the economy and the construction industry's highs and lows. Given this economic sensitivity, some construction company owners feel that because they can't control the economy or building volume, they will simply ride the tide of healthy growth periods, and then weather the inevitable storm. Changes, therefore, are mostly reactionary. For example, many point out that thorough planning would not have prevented the existing steel shortage. Companies just responded to the shortage as it occurred.

A second reason companies avoid strategic planning, especially smaller companies, is that they don't have enough time to plan beyond individual projects. These companies have employees playing multiple roles, sometimes with a single individual doing estimating, project management and accounting. Whether a realistic situation or a handy excuse, time becomes a limiting factor as company planning takes time away from chasing potential projects or building.

Some companies, especially smaller generals and subcontractors, use the adage that strategic planning is for the “big guys.” These large companies have many more mouths to feed – more staff, higher rent, tenuous cash flow – and they need to be more mindful of planning as their overhead is higher. Smaller companies might delude themselves by thinking that they don’t experience some of the same challenges as their larger counterparts.

Jim Oberndorfer, chief estimator of Las Vegas-based commercial and general contractor, Burke and Associates has another reason. He says, “Some companies think that the implicit is explicit—that somehow the owner’s or CEO’s wishes are transparent to everyone. That’s a fatal flaw because companies might be bidding projects or developing owner relationships, which may be outside the scope or geography that the owner desires. Lost time becomes lost money.”

Many companies never would consider running a project without a plan. Thousands of dollars could be at stake—as well as their reputation. These same companies place their futures at risk because they often have insufficient strategic plans for themselves. Recent research finds that companies in the past decade with well-developed and clearly articulated strategic plans averaged 14 percent annual growth, while those without plans averaged only 7 percent. Given that fact, a $20 million company in 1991 without a strategic plan would lose millions of dollars in potential revenue by that decade’s end. This implies that companies that thoroughly plan, and translate that diligence to individual projects, tend to build more profitable projects—and then become more profitable overall.

Some equate running a construction firm without the direction provided by a strategic plan as being akin to going to an archery range, shooting arrows and then drawing the target.

In addition to the obvious financial ramifications, the question arises—why do strategic planning at all? A plan aligns company resources around a determined focus, whether defined by project size, type or location. Another reason for company-wide planning is gaining a better understanding of market and customer demand, while a third is galvanizing the entire organization around a compelling set of initiatives—whether increased profitability, or more consistent quality.

Mike Kolakowski, president and CEO of Connecticut-based, Konover Construction has known this for a long time. “We plan for a three-to-five year time horizon. We use that plan as a filter to help us determine what projects we should bid. If a project doesn’t fit that filter, we ask ourselves, why are we going after it?” he says.

Konover doesn’t bid work that is inconsistent with the size, scope, and location of its plan without a compelling reason. The company knows its market niche and stays within it.

In addition to project selection, Konover uses strategic planning for other purposes. Regarding relationships with owners, Kolakowski says, “Owners like to see that the contractors they hire are thoughtful about their own company’s future. They like to see financial stability to ensure that adequate attention and resources will be devoted to their project—and that the contractor will be around in the long run—should difficulties arise.”

With subcontractors, Kolakowski says, “We like to see our subcontractors establish long-term, loyal and collaborative relationships with us versus just working on a single project. We find that those who are financially stable and are focused on their company’s future perform better on a project-by-project basis than those who don’t.”

While overall profitability should be a sufficient motivator, there are other company implications to strategic planning. Understanding the competitive marketplace is a construction industry core competency, yet it is inadequately addressed. For example, three quarters of mid-size companies are very clear about who their key customers are. However, only 13 percent have targeted business development efforts for those key customers. The other 87 percent are shooting in the dark, not fully knowing which of their efforts have produced results.

Even with some long-standing reasons for not creating a preferred future, companies would do well to develop a strategic plan. Through the planning process, they can establish a more in-depth marketplace understanding, set revenue and profitability targets and develop the initiatives to accomplish them. Using the plan as a guideline might translate into specific project work, and outline what, where and how to bid and build projects. Strategic planning is not only a wise management practice, but as research suggests, a financially rewarding one.