PSMJ | Resources, Inc.®

THE ULTIMATE

A/E/C BUSINESS DEVELOPMENT

MANUAL

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The Ultimate A/E/C Business Development Manual

PSMJ|Resources, Inc.

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PSMJ | Resources**, Inc.**

PSMJ Resources, Inc. is an international, leading-edge provider of strategic planning, management, and marketing information and services for the design and construction industries. Headquartered in Newton, Massachusetts, the firm has industry around the world.

Offering a track record of excellence for over 30 years, the company provides expertise in such topics as strategic planning, marketing, project management, organizational structure, ownership transition, valuation, mergers and acquisitions, profitability analysis, and compensation programs. The vital information is distributed through a variety of channels including newsletters, textbooks, conferences, surveys, management consulting, training, and tradeshow production services.

Highlighting its diverse portfolio of products and services is the publishing arm of the company. Comprising newsletters, how-to manuals and industry surveys and reports, PSMJ offers comprehensive information and cutting edge recommendations. Among the best-selling titles offered by PSMJ Resources are *The Ultimate Project Management Manual, The Ultimate Mergers & Acquisitions Manual; Dollars & Sense: A Guide to Financial Management; The Ultimate Ownership Transition Manual,* and *Winning Proposals*, as well as numerous surveys including reports on fees, salaries, incentive compensation, information technology, and financial performance.

Education training on design and construction firm management is another segment of PSMJ's services. Over 100 training programs are offered each year to individual companies and through national and international conferences. Annually, these programs assist thousands of professional to improve their firm's performance, profitability and sales.

In addition, PSMJ's staff and associates have gained international acclaim as lecturers by speaking extensively to industry groups such as The American Institute of Architects, American Consulting Engineers Council, Professional Services Management Association, National Society of

Marketing Professional Services, International Federation of Consulting Engineers Association, A/E/C SYSTEMS Japan, New Zealand Consulting Engineers Council, Committee of Canadian Architectural Councils and the New Zealand Institute of Architects.

PSMJ Resources, Inc. also provides specialized consulting and problem-solving assistance to its clients. Working from diverse backgrounds and experiences within the A/E and construction fields, PSMJ consultants help client firms ranging in size from one to 5,000 people.

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The Ultimate A/E/C Business Development Manual is a culmination of new and tried-and-tested expertise from within our network.

First, we must thank the authors and presenters of PSMJ's business development seminars and workshops, which include **Kenneth C. Tichacek**, Associate AIA, who is known as "The Proposal Doctor" to the many PSMJ clients he works with and is the founder and principal of Think Like Your Clients, LLC. He has over 25 years in the A/E/C industry, as well as over 10 years' experience as both a public and private sector client. Trained as an architect at the Illinois Institute of Technology, Ken has served as either Vice President or Director of Client Services for some of the leading A/E/C firms in the Northeast. He is a member of the Society for Marketing Professional Services (SMPS) and an Associate member of the AIA.

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CHAPTER 1

Foundation: Differentiation & Branding

In this chapter, you learn how:

- To differentiate your firm.
- To charge value prices rather than compete on low fees.
- To position your firm to win at RFPs and presentations.
- To analyze your strengths and weaknesses against those of competitors.

At its end, you will use two tools that help you do all of the above, those tools being:

1. A Competitor Analysis tool/worksheet.
2. A Strategic Proposal Positioning Tool.

Quick—before even thinking about it, answer these two questions:

1. What makes your firm exceptional?
2. What is your position in the market?

Not only should *you* be able to answer those questions; so too should *your clients and prospects* (Chances are, you can answer both of these questions about your nearest competitor.).

You must actively manage your image with *branding and positioning*. Are you the go-to firm for fast, quality municipal projects? The multinational giant who can assemble a quality team for the most complex jobs? Perhaps the only firm in Louisiana with historic preservation experience?

Every function in your company must be aware of your brand and position, and work in concert to sell that image. This includes a proactive effort on:

1. **Marketing**, with its dual mission of searching for prospects and brand-building
2. **Client management and networking**, which is establishing and fostering relationships
3. **Sales,** simply getting the work.

In this chapter, we focus on your differentiating and positioning strategies.

Differentiation: Why Your Firm is Different

Let us look first at what *does not* differentiate you.

Several things which your client has heard before—and therefore which *do not* differentiate you include:

- "Our firm is more like a family."
- "Here is a list of our people and their remarkable capabilities."
- "Here's a list of our award-winning projects."

- "Here's a laundry list of our services."
- "We are a customer-centric organization!"
- "We are a leader in (educational buildings, LEED Certified buildings, airports)."
- "Here is a list of our 50 offices. We are never more than a few miles away."

Does this look like your proposal? Does it contain this verbiage, maybe in section headers? At best, you tie with all the other firms, unless one firm differentiates itself.

A few harsh realities are that quality and genius are sheer commodities. Relationships and service (on top of quality and genius) are true differentiators.

Differentiating Through Low Price is a Losing Game

Price *is not* the differentiator that clients say it is—even if the RFP names it as a criterion.

Ask a selection committee about their criteria, and perhaps seven out of ten will name *price*. But in reality, it is a deciding factor in just 10 percent of jobs—that according to survey data from Hinge Marketing, a professional services marketing team.

Clients generally fall into four categories:

1. Those who say they **buy only on price,** and they always do.
2. Those who say they buy only on price, *but* **can be persuaded to buy on value.**
3. Those who say they **buy only on value,** and they always do.
4. Those who say they buy on value, but **can be persuaded by price.**

Bear in mind that, in number 1 above, you are a commodity, no matter how sophisticated your product.

We will explore value, criteria in numbers 2 and 3 above, in the next section.

Number 4 is perhaps the most insidious. They will claim that fee is just 25 percent of a decision, but are dazzled by a low price and ignore your value.

So if going cheap is your strategy, you stand to win at most 10 percent of projects—unless a competitor undercuts you, or another firm impresses the client in both the RFP and the presentation.

Still—there is that 10 percent, and in industries such as public works and education, price often is a deal breaker. See the sidebar "What to Do When Clients Use Price For Selection" for strategies to bid low while still profiting.

WHAT TO DO WHEN CLIENTS USE PRICE FOR SELECTION

Some clients will always select the lowest price in choosing an architecture or engineering firm. These clients will obtain quotes from several firms, and pick the low hourly rate as the winner.

Clients who have "purchasing agents" in control of selection, or who must approve the decision made by a selection group, are always likely to base selection on perceived prices for services.

So how can you avoid playing the cut-rate game?

First, recognize that clients who use price as the sole selection criteria cannot be converted into "relationship" clients. They will not be open to mutually supportive working arrangements.

Second, realize that you can't possibly be a winner every time in competitions like these. Some other firm will always quote lower; there are just too many firms out there.

Cut your costs. Keep your profits. Once you have accepted that price will be the sole selection criteria, how do you respond (assuming you have not decided to avoid responding altogether)? The overall goal is to make your proposed prices look low, while not compromising your basic pricing.

Here are some high-leverage proposal tactics that, in a low-fee competition, will allow you to quote lower hourly rates, while keeping a higher profit potential:

- Make your price (or rates) dependent upon being paid 50 percent of the fee up front as a retainer.
- Make the payment terms 10 days—rather than 30—from date of invoice (with a high late payment penalty).
- Don't just limit your liability; include a "hold harmless" clause shifting responsibility to the client for design errors.
- Eliminate any redesign that would go over construction budget bids. State that this will be an additional service.
- Add a higher percentage markup to subs and reimbursables.

Try some fixed-price tactics. If you are quoting a fixed-price fee, try these scope modifications:

- Have all project meetings at your office, thus eliminating local travel time. Include any travel time as an additional service.
- If you prepare zoning permitting applications, do it as an additional service.

- Clearly state that you will use "proven design solutions," and then reuse as much as possible from prior projects. Studies and new solutions will be additional services.
- Be very clear in stating the number of things you will do as basic services. It's not enough to say "monthly meetings"; you need to say "six monthly meetings of two hours each, attended by the project manager."
- Flatten your hourly rates by lowering the principal rate and raising staff rates. Clients who are price-sensitive often focus only on the highest rates.

The best tactic: Offer choices. What happens when the client calls and says, "You have the job, but we can't pay a retainer"? The secret is to be prepared with pricing options. Be ready to say, "We can skip the retainer, but the fee increases by two percent." Even better, if your proposal offers the choice of either a 50 percent retainer or a two percent additional fee, you can refer the client to that part of your proposal.

A key to this approach is to include a standard "terms and conditions" page in your proposal, and then send it along with your price quote. Think along the lines of airline tickets or rental car agreements that print limitations on the back (although we do not necessarily recommend using four-point type).

Does this sound like we are advocating you act like a contractor who relies on change orders? Quite frankly—yes. In low-bid situations, if you don't strictly define what your price includes, and then charge for services beyond that price, you sacrifice profit. This applies to all businesses, not just A/E/C firms. Your other choice is simply to say "no" when asked to bid in a price-only competition. If you don't want to limit your services or quality, this may be the more profitable way to go.

Editor's Note: *This material is for informational purposes only. Before taking action that could have legal or other important consequences, PSMJ Resources suggests you speak with a qualified professional who can provide guidance that considers your own unique circumstances.*

You Need to Stand Out at Two Levels: Brand & Project

People don't buy what you do; people buy why you do it.

–Simon Sinek

You stand out with your brand because it is who you are, what you stand for, and why you exist.

You stand out due to your approach to individual projects.

Most firms assume their portfolios are all the convincing they need to win projects. But a brand speaks for you, and before you even arrive. The clearer you can make your brand, the more you stand out.

Consider Southwest Airlines. Chances are that you have a stronger impression of it than of, for example, United Airlines, American Airlines, or Delta. Unless you are a frequent flyer, those airlines blend.

Southwest is what was originally known as a "no-frills airline." They offer no reserved seats, consistent with their no-frills brand. They charge no baggage fees—very consistent with their brand. They fly Boeing 737 MAX planes and stand out in customer service.

Southwest has a reason to exist; it was founded in the 1970s on the notion of making flight available to every man and woman. Flight at the time was far more expensive, comparatively, than today, with added costs like in-flight meals and movies—amenities people did without gladly, if it meant going on vacation more cheaply.

Likely, flight shoppers look at Southwest first before comparing price. That's the power of brand, and the power of purpose.

The Value Pricing Strategy

Of course we cost more. We're worth more. Got a contract with you?

Above is the essence of *value pricing*.

With value pricing, the fee is determined partly by the value the client *perceives* in the service to be delivered, and partly by your *cost and profit considerations*. It differs from:

- **Cost pricing**, determined by anticipated costs (both direct and indirect). A/E/C firms typically undervalue themselves.
- **Parity pricing**, based on what others are likely to charge, or on a standard scale of fees from published cost data
- **Strategic pricing,** determined by strategic criteria like gaining experience in a new growth area.
- **Negotiated pricing,** determined through a process of concession trading.

All have their time and place; but A/E/C firms use *parity pricing* as a norm. They are afraid to price themselves out of a job. But at the same time, they declare of themselves "We are average. Our average work will cost you an average fee."

A/E/C firms are among the least profitable of professional services firms because they *sell themselves short*, using traditional accounting methods and prices. The A/E/C industry as a whole will not break with tradition, but bold, profitable firms prosper with such strategies as:

- Charging premiums for special requests (such as accelerated project schedules)
- Offering zero-change-order guarantees at a premium
- Charging value-added fees and penalty fees
- Requiring prepayment of up to 100 percent

EXERCISE: WHICH ARE DISTINGUISHING WORDS AND PHRASES?

Rank the expressions below as to whether they are distinguishers for a firm. Then, if an expression *is* a distinguisher, further evaluate if it is an important distinguisher to a client seeking a quality service provider in the second decade of the 21st century.

Hint: Think about each phrase carefully. Are full-service firms hard to come by? Then mention it in your company description, but drop it elsewhere. How do your 120 years in business benefit the client? If they require continuity of service after project delivery, it's a distinguisher; otherwise it's just age. A five-year-old firm can lay municipal sidewalks just as well.

Use those expressions you find distinguishing in your correspondence with the client, especially your proposal cover letter (and throughout the proposal).

EXPRESSION	**Not a Distinguisher**	**Distinguisher**	**Important Distinguisher**
Full-service firm			
Designed four award-winning drawbridges in the mid-Atlantic over last 3 years			
Founded 120 years ago			
Client-centered culture			
Focus on unique wetlands mitigation banking instruments			
Forty offices throughout the US and Canada			
Total staff of over 10,000			
Internal CAD support for all disciplines			
Meet schedule and budget			
Exceed client expectations			
A portfolio of LEED-Certified projects			
Employee owned			
Passionate about design and construction			
Our distinguisher (Item 1):			
Our distinguisher (Item 2):			
Our distinguisher (Item 3):			

Chances are you found that most phrases are hackneyed, or mean nothing, so look for ways to make them more original.

Position Yourself to Win

When do you think your client decides who they want to hire?

Usually, well before the RFP is even issued (unofficially, at least). Some can be persuaded otherwise; but not usually.

If that sounds unfair, it is time to use positioning to your advantage. Winning business is no game of chance; you *earn* that business.

And, thinking like a client, their motivation is to do what is best for their towns, their companies, their constituencies. They will play favorites and do everything within their power to give work to firms they trust.

Your task is to be such a firm.

There Is Always a Leader, at Every Stage of the Game

To think about this in another way, look at a stack of eight RFP responses, a "short list." Do those eight firms stand an equal chance, realistically?

They are not one in eight. Even if the top criterion is fee, and one of those eight offers the lowest cost, another may be better at bidding. And in qualifications-based bidding, someone has a zero chance of winning; they are there as a courtesy, perhaps based on past work for the client before. But. the client has a mindset to make a change, and courteously allows the firm to spend several thousand dollars to submit a proposal, and go to an interview. A real one-in-eight chance is hardly worth pursuing.

Alternatively, a firm may position itself as the leader, with a 75 percent chance or greater.

If one of those firms took the time to establish a relationship with the client—actually talked to the client about their issues, long before this RFP—then likely, that firm is on the top of the stack—and enjoys a hit rate far above its competitors.

Most firms start too late, actually meeting the client for the first time in a presentation. But even before the RFP, you should be positioning yourself against potential competitors. As we will explore in Chapter 2, "Think Like Clients to Win & Retain Them" What you want to do is establish an impression, then at every step moving forward, confirm that impression.

So—when should you start your pursuit of a job in earnest?

When you first hear about the opportunity! (But you truly began pursuing the opportunity when you first met the client.)

Recognize that Decisions are Based on Fear and Trust (so, They are Personal and Emotional)

Imagine a scenario in which a project manager works at a major metropolitan hospital, like Weill-Cornell in New York City or Beth Israel Deaconess in Boston. The president calls in the young project manager, announces that the board of trustees has voted to proceed with a $70 million addition, the largest in the hospital's history. He does not want to be tasked with the day-to-day business of the project; that's what the project manager is for. He ends the meeting by saying "Call me on the day of the ribbon cutting."

What is the first thing that runs through that project manager's mind?

Likely, *fear*. Of missing the high-profile deadline for the project, of embarrassing the board by going over budget, of losing the goodwill of the customer base. Fear is at the root of the A/E/C industry, and its main product—frankly—is *risk avoidance*, along with risk mitigation. In this business, someone is always at risk, be it an individual, a client, your firm.

Likely, our project manager's second thought is "Who can I talk to?" She will want some grasp of the scope of such a project, want to know the ins-and-outs of a major hospital project, want to know what can knock such a project off the rails.

You want her to phone you—a trusted advisor—perhaps one she met because you have been in touch before there was any such project; because you met her at a networking event and showed true interest in project management at hospitals; because yours is the only firm she knows of, that has completed a project like her own.

Is it worth your while to spend time with her?

Absolutely; you can spend $30,000 in marketing to get her to *know who you are*, but the fact that she phoned you for advice means she *trusts* you.

And you become that leader in a shortlist of eight.

To Know Your Position, Know Yourself, Your Client and Your Competitors—Intimately

Your positioning in that short list depends upon all three entities.

Presumably, you know your clients very well; and if you do not, then Chapter 2, "Think Like Clients to Win & Retain Them," will guide you how. But do you truly know yourself, and your competitors (i.e., who *will* attack you on your every weakness)?

PSMJ COMPETITOR ANALYSIS TOOL

At the end of this chapter, you will find the "PSMJ Competitor Analysis Tool." (You will find this tool in Chapter 10, "PSMJ's Business Development Plan Template" as well.)

This worksheet is in the form of a Strength-Weakness-Opportunity-Threat (SWOT) analysis and enables a relatively rigorous evaluation of competitors.

For now, choose a competitor you frequently come across, or a competitor for a given RFP.

Note that you are tabulating both competitor *strengths* and *weaknesses*; also the threats and opportunities that these present you.

As per the instructions, strengths and weaknesses may include:

- Firm size
- Location
- Reputation
- Experience with client
- Experience on similar projects
- Price structure
- Quality control
- Internal management
- Wildcards—any factors specific to a given project, or others that you can think of.