

The Upside to a Down Market

Notes from the SMPS Foundation Think Tank

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“Be fearful when others are greedy and greedy when others are fearful.”

—Warren Buffett

The perfect storm that has transformed the global economy—caused by the collapse of the sub-prime lending market and the subsequent investment banking and financial industry failures—has acted like a tsunami to architecture, engineering, and construction firms around the world. It has caused what many are saying is the worst economy for the building industry in modern times. It is affecting A/E/C firms working in both the residential and commercial real estate markets.

In response, on February 20, 2009, at the High Museum of Art in Atlanta, GA, the SMPS Foundation brought a group of 12 building industry experts together at its first Think Tank to discuss what A/E/C firms can do to weather this challenging period.

The Think Tank was developed from a proposal by SMPS Foundation trustee **Peter Lyon, FSMPS**, and resulted in a blue-ribbon panel and an audience of more than 60 participating in a day-long session on this critical topic. The Think Tank was sponsored by **Perkins+Will; Flad Architects; Willis A. Smith Construction; The Flintco Companies; Hamilton McDonald; Dennis Schrag, Ed.D, FSMPS, CPSM; Nancy Usrey, FSMPS, CPSM; and Rhodes White, FSMPS, CPSM.**

12 Strategies

The Think Tank began with an opening keynote presentation by **Joseph Powell**, executive director of the Rice University Building Institute, entitled “The New Competitiveness in Design and Construction.” Powell shared data that came from a three-year study and formed the basis for his book *The New Competitiveness*

in Design and Construction (Wiley, 2008). His 12 strategies for competitive advantage are:

1. **Inspire with Vision:** The vision-driven are more adept at holding the attention of high-value clients.
2. **Lead with Values:** Companies that genuinely nurture a culture of values over time are more effective in the marketplace.
3. **Attain Competitive Focus:** Strategic focus has never been more difficult to acquire.
4. **Capture Category Ownership:** Tomorrow’s market leaders will know how to shape new categories and declare ownership.
5. **Utilize Persistent Branding:** Few companies in the A/E/C community effectively exploit its power.
6. **Create Marketing Breakthroughs:** Develop the capacity to repeatedly win projects where you are not the most qualified competitor.
7. **Exploit Competitive Intelligence:** Operate with more accurate information about the competitive landscape.
8. **Launch a Competitive Culture:** Every employee has the responsibility for tracking the competition, looking for new opportunities, and nurturing a competitive advantage.
9. **Establish Customer Intimacy:** Create techniques that will illuminate the unarticulated needs of high-value customers.
10. **Acquire and Nurture High-Impact People:** Identify, recruit, and manage people who are worth more than their pay.
11. **Develop a Culture of Obsessive Improvement:** Self-congratulatory ventures don’t long survive. The most successful ones institutionalize the process of constant evaluation and growth.
12. **Formulate New Strategic Alliances:** Exploit the power of interdisciplinary collaboration.

He concluded by asking the following question: “Do your clients discuss their corporate strategies with you—their architects, engineers, and builders?” To do this, A/E/C firms will need to use their knowledge of the built environment to help execute and achieve their strategic goals in the business environment.

The Panel Discussion

Co-moderator **Janice L. Tuchman**, editor-in-chief of *Engineering News-Record*, started the panel discussion noting that the economic slowdown has resulted in a significant decline in professional fees and in design firm payrolls. With that sobering news, she asked each of the panelists to address the question, “Is there an upside to a down market?”

The panelists noted that they had seen recessions before, but never this bad, this broad, or this deep. However, all agreed there were lessons to be learned from these past down-market periods.

- **Ramin Assa**, chief knowledge officer at the Urban Land Institute, commented, “I’m an eternal optimist. I believe that there is an end to the crisis.”
- **M.J. “Skip” Beebe**, formerly the chief learning officer with real estate advisors CB Richard Ellis, noted, “A great recession is too great an opportunity to miss.” He observed that, different from past recessions, this is probably not just a cycle that we will go through and then things will pick up and recover.
- **James P. Cramer, Hon. AIA, Hon. IIDA**, publisher and founding editor of *DesignIntelligence*, added, “Fear puts people into paralysis and uncertainty and confusion. That’s why I am generally not optimistic about the future of our professions as we have known them.”
- **Diane C. Creel, FSMPS**, former chairman and CEO of Ecovation and EarthTech, said, “Technology’s going to develop eight times faster in this century than it did in the last century, and that creates a huge challenge for all of us professionally. Everything will become global in its perspective.”
- **Art Gensler Jr., FAIA, FIIDA, RIBA**, chairman of Gensler, cautioned against making too much of the media emphasis on the recessive economy and added, “You make what you create. I see opportunities that are enormously challenging.”
- **Laurin McCracken, AIA, FSMPS**, CMO at Jacobs Global Buildings NA, commented, “This recession is going to last a lot longer than prior downturns, and when it comes out, it’s going to be a lot slower to grow on the other end.”
- **Brad Perkins, FAIA, MRAIC, AICP**, co-founder and chairman of Perkins Eastman, said, “This is my fourth recession since I became a managing partner of a firm and the second since I set up my own firm, but this too will pass. While a lot of the current problems are very real and very serious, a very big part of the problem is psychological.”
- **Alfred K. Potter II, FSMPS**, Senior Vice President and Chief Strategy Officer for Gilbane Building Company, added “This is a time when our clients are struggling with what the impact and strategic implications of facilities decisions will be on their firms

or institutions. This is a time when we can help guide them to the right facilities decisions.”

- **Thomas E. Smith Jr., AICP, FSMPS, CPSM**, president of BonTerra Consulting, noted, “I’ve been through five recessions, and it occurs to me that the opportunities are there if you are just creative enough to see what is in front of you.”

The themes for the day became clear. The general consensus was that “fear” is driving business-based reactions to this economy; that fear was perceived as global and fueled by mass media coverage. There was agreement that talent development and retention will be important to long-term survival and that client-facing service and “value” would be the differentiators of those who thrive while others struggle to survive. This initial discussion set the tone for the following dialogue, which generated no shortage of perspectives, disagreements, and observations drawn from historical context and contemporary reality.

Stimulus vs. Credit Crunch

Jan Tuchman began the next session of discussion with a question on everyone’s mind: “What are your views on the stimulus package, and what do you think it might do for your companies and for the industry?”

- Laurin McCracken was the first to comment, saying, “One of the things that strikes me about the stimulus package is that it’s too much money at one time and not enough money at the other time. There are lots of projects out there that would like to get started, but nobody can borrow any money to start them.”
- Brad Perkins added, “I think that the stimulus package is not going to have a very big direct impact on most of our potential practices. The stimulus package is important, because it will give people some confidence.”
- Jim Cramer observed, “We can start to get a little optimistic in a strategic way, because the pies of the market, whether you talk about the U.S. market or the global markets, are shrinking by category. This may address some of the waste and inefficiency issues that we have in our industry.”

Evolution vs. Revolution

Co-moderator **William C. Viehman, AIA, LEED AP**, principal of Perkins+Will, posited to the panel, “How can you grow your company when the market isn’t? Is your strategic thought one of evolution or revolution?”

- Art Gensler stated, “We are now taking on things that we have not done in our traditional work. We want to be a strategic partner with our clients. That, to me, is the kind of both ends of the spectrum of evolution versus revolution that I think all of us are going to have to address in this kind of changing time.”
- Skip Beebe added, “I think part of the challenge that all of us face right now is one of a resource question. And as much as anything else, it’s a time resource. You will need to make some conscious decisions or risk having events dictate what your business looks like.”

- Diane Creel added, “I think what you have to do is to re-tune your strategic focus to where there are opportunities. I think there are opportunities out there. I think what we’re going to see in our industry is a whole lot more collaboration and the walls of competition coming down.”

Collaboration vs. Competition

- Tom Smith commented, “We are seeing more on the collaboration side. Larger engineering firms are more open to collaboration with smaller, more niche firms, because they know the small firms like ours have other opportunities.”
- Ramin Assa commented that firms from outside the traditional A/E/C industry, like IBM, are looking at the potential to play a key role in infrastructure development. Similarly, engineering companies are seeing an opportunity to outsource their IT staff for project management. He posed that we should all ask our clients, “What else can I do that will benefit you?”
- Al Potter said, “Beyond the talk of global markets, we should remember that there are a lot of opportunities very close by. It is in fact a balance of evolution and revolution and we need to be careful that we mind the store in these precarious times...too much playing in our heads can be as dangerous in these times as it can provide opportunities.”

Integrated Project Delivery

- Art Gensler offered that a serious look at a recent trend is alternative project delivery. He commented, “The AIA is promoting integrated design delivery as a new approach and new way to work. I think that has some value, but I don’t think it has been completely thought through.” He added the presumption is that, if integrated project delivery (IPD) is used, there will be no change orders and lower costs, but he was clearly skeptical.
- Al Potter shared a national general contractor’s perspective, saying, “I agree with Art on the contractual viewpoint. We’ll look at every contract as it comes along, but we are not out promoting a tri-party contract to owners because, frankly, we don’t think it serves the owners well, not to mention all of the potential legal issues. However, I think we need to recognize the fundamental driver that is causing so much fervor over IPD.”
- Bill Viehman added, “Design-build came about because architects were abdicating their responsibilities for total management of the process. That left a void and created an opportunity for a professional service to come in and package it differently. We need to look out for that in the future iterations of approaches like IPD. I think IPD is a trend, not a fad. It is something that we’re going to have to deal with in our delivery of services.”

Commoditization vs. Trusted Advisor

- Skip Beebe commented, “I go back to Joe Powell’s clarion call to get out and talk to your clients. One of the real disconnects with sales and marketing professionals I work with is, trying to teach a salesperson to go out and make a call without selling anything is nearly impossible.”
- Diane Creel commented, “What we did was, we went to the clients and said, ‘How are you doing this today? If you’ll open up to us, we will be better at telling you whether we can save you money or not by doing it our way.’” She added, “That involves a whole lot of listening and not a lot of talking. That’s how you become a partner.”
- Brad Perkins responded, “I think most of us have tried to build relationships with our clients where we can have an extended dialogue so that they hire us on trust and to solve a real problem. But somewhere along the line, clients got into selecting us based on 45 minutes to 1 hour of theater.”

Values & Value

Jan Tuchman kicked off the afternoon session on the topic of value: “Based on Powell’s presentation on 12 strategies, we heard the term ‘values’ as one of the leading competitive strategies. Do any of the panelists have a thought about that?”

- Al Potter said, “From our viewpoint, we’re talking about two totally different interpretations of the use of the same word. When you are talking about ‘values’ of a firm, we have six core values that constitute the way in which we act when we do business. But ‘value,’ in the context of client value, has to do with discernible benefits that are being delivered, presumably in a differentiated context beyond competition.”
- Skip Beebe noted, “The question really is can you sell value connected to your values? It just could be that values play a real role in this new world order. The simple question might lead to some profound insights that will lead to escalating what your value proposition is going forward.”
- Laurin McCracken observed, “One of the definitions of delivering value to a client is meeting or exceeding their expectation. Throughout my career I have seen a great disconnect between the expectations of the A/E and construction side and the clients because we didn’t ask these questions. So aligning ourselves with the client’s expectation will always bring value to the client.”

Innovation & Technology

- Jim Cramer noted, “We’re an industry that’s going through a lot of complex changes. Not only are the value propositions changing, but the experiences between design professionals are changing, and the experiences with the construction users,

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—William C. Viehman, AIA, LEED AP, Principal, Perkins+Will

the owners, the managers, are changing. The owners—the clients—are getting more sophisticated.”

- Bill Viehman added, “I think it comes down to two fundamental issues. One is the financial model for the profession and the industry. And the other is lack of enlightenment. The financial model combined with a lack of enlightenment does not fund true, innovative thought or research and development within our industry.”
- Al Potter commented, “We’ve been addressing creativity and innovation as strategic issues in some long-term planning by our management team. We’ve shined a light on innovation with an internal awards program.”

Making Tough Decisions

Jan Tuchman posed a new question, “If we’ve got to make cutbacks, everything we cut is a sacrifice. But you have to sacrifice something. How do you make that decision?”

- Skip Beebe noted, “We keep talking about this recession being a different one. In every downturn I’ve gone through in the past, we’ve had crisis meetings. Every division is given a number to hit in staff reduction. Unfortunately, those decisions aren’t made based on strategy. They’re political.”
- Bill Viehman took another view, saying, “I think we’re looking at the question backwards. I don’t think the question is who you *cut*. The question is who you *keep*. And why?”
- Diane Creel added, “I think a good recession always helps you get rid of mediocrity. This is a good chance to look across the organization at the fat that got built during the good times.”

At the End of the Day

Concluding the day-long Think Tank, incoming SMPS National President Tom Smith recapped, “Look at things that show the client you’re really trying to stand in their shoes and understand the dilemmas they might be facing. Just hearing that creates a value and demonstrates your concern. That will pay dividends to you.”

SMPS Foundation trustee Bill Viehman added, “Talk to your clients. That is the source of information that is going to be most meaningful in shaping your strategies and your actions. Surviving in a down market can be most affected by innovation and by establishing, nurturing, strengthening client relations and transforming them into partnerships.”

Editor’s Note: This is an abridged version of the 11,000-word summary of the first SMPS Foundation Think Tank. ■

About the Editor



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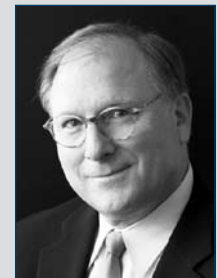
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