2011 Webinar

Escaping the Walmarting of Design

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2011 Webinar Series

Escaping the Walmarting of Design

Presented by:
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Moderator:
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Escaping the Walmarting of Design

Bob vanArdsall
XL Design Professional
AIA PMKC Webinar
22 September 2011
Agenda

• Market realities
• Timeframe necessities
• Value = Money
• Things you can do short-term
• Things you can do longer term
• Suggestions to increase value
First, Some Questions:

– Do you currently operate fundamentally the same way you did 10 years ago?

– With what you know today, do you think your firm can operate the same way it does today 10 years from now?
Number of A/E Firms

- Total number of design firms continues to decline
- 31.0% loss since 2001
2003
The National View – Architects

Total Percent of Firms in Sector
Percent of Revenue by Size
2011
The National View – Architects

Chart showing the distribution of firms and revenue by size categories: Small, Mid-Sized, Large, Jumbo. The chart indicates the percentage of firms in each size category and the percentage of revenue contributed by each size category. The categories are represented as bars with different shades and colors.
Number of US Engineering Graduates

- 1996: 40000
- 1998: 38000
- 2000: 35000
- 2002: 32000
- 2004: 29000
- 2006: 26000
- 2008: 23000
- 2010: 20000
Basic Microeconomics Should Favor Services

Demand

Supply

increasing

$\text{Services}$

increasing
But Not in the Global Economy...
Why Blame Walmart?

- Lowered price due to massive volume (owner pressure)
- Demands on suppliers for price, supplier concessions (owner pressure, supplier weakness)
- Fulfills demand from consumers for low priced goods
- Almost impossible to resist
How Does This Apply To Design?

- Owner pressure on price, schedule
- Architect pressure on billings
- Contractor pressure on plans
- Net result: skinny margins, fast delivery
Push vs. Pull Models

The Push Model

SERVICE → COST → PRICE → VALUE → CUSTOMER
QBS Selection (from FIDIC requirements)

- professional competence
- managerial ability
- availability of resources
- impartiality
- fairness of fee structure
- professional integrity
- quality assurance system
- past projects performance record;
- the documentation and project control procedures which guide the performance of the consultant's services;
- the success record of the proposed project manager on previous projects;
- the project management and quality control approach proposed for the new assignment;
- the progress reporting and client communication techniques proposed for the assignment;
- the success rate on previous projects of the consultant in transferring technology.
Push vs. Pull Models

The Push Model

SERVICE → COST → PRICE → VALUE → CUSTOMER

QBS?
What Do Owners Really Want?

• Responsiveness
• Predictability
• Help with budget accuracy
## Essential Skills for Design Professionals

### The A/E View
1. Technical Knowledge
2. Experience
3. Communication Skills
4. Business Acumen

### The Client View
1. Communication Skills
2. Business Acumen
3. Experience
4. Technical Knowledge
Push vs. Pull Models

The Pull Model

CUSTOMER

VALUE

PRICE

COST

SERVICE

Demonstrated: Better, Faster, Quicker
So, the Real Question:

What Value Can You Add to the Project?

(In the Client’s Definition of Value)
LIFE CYCLE COSTS OF BUILDINGS

- INITIAL CONSTRUCTION & LAND COST: 34%
- MAINTENANCE & OPERATIONS COST: 32%
- INTEREST COST: 32%
- INDIRECT COSTS: 2.5%
- DESIGN COSTS: 1.5%
How to Find the Value Targets
Seven Fundamental Questions

Quantitative Segmentation:

• Can it be quantified?

• Is it big enough?

• Can we reach it through our business platform?

• Will it trend upward or downward in the future?
Seven Fundamental Questions

Quantitative Segmentation:

• Do we have the resources/skill sets to serve it?

• Can we make money at it?

• Can we create sustainable competitive advantage at it?
Qualitative Market Segmentation

• What is it that the market segment needs (as influenced by its market forces)?

• How does your firm’s services meet those needs?
Qualitative Market Segmentation

- How much do we know about the client’s client? (understanding the big picture)

- When these needs are met, how does it make the clients in this market segment feel?
This Allows Your Firm to Differentiate Itself From Other Firms in the Client’s Eyes

Which Is The Only Place It Counts
But Once You Define a Segment, Then What?

• Porter – Only 4 strategies exist. 3 win, one loses
  – Overall cost leadership
  – Differentiation
  – Focus
  – Middle-of-the-road – the losing strategy
Recent Additions to Theory

• Treacy & Wiersema – Three ways to deliver superior value to customers
  – Operational excellence – Wal-Mart, Dell Computer
  – Customer intimacy – USAA, Nordstrom, Land’s End
  – Product leadership – Intel, Motorola, Nike, Nokia
Differentiation in a Service Industry

• Essentially three ways:
  – Offering – innovative features
  – Delivery – project delivery or customer service
  – Image – symbols, slogans, etc
How New Business Models Present
How New Business Models Present
Hard Questions:

1. Are you a specialist or a generalist?
2. Who – exactly – do you serve?
3. What are their market drivers?
Escape the Wal-Marting

• Make it your choice whether or not to participate
• Know the pricing parameters in each market
• Don’t participate in all markets if you can’t make money
• Owners don’t necessarily reward excellence, they reward value
Questions?

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Upcoming Webinars:

“Client Research: Debunking Myths and Maximizing ROI”
October 13, 2011

“Best Practices in Competitive Intelligence”
November TBD

“A/E Industry Consolidation”
December TBD

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