MARKET E

Will it be "happy trails" or a "massacre?"

By Ruth E. Thaler-Carter

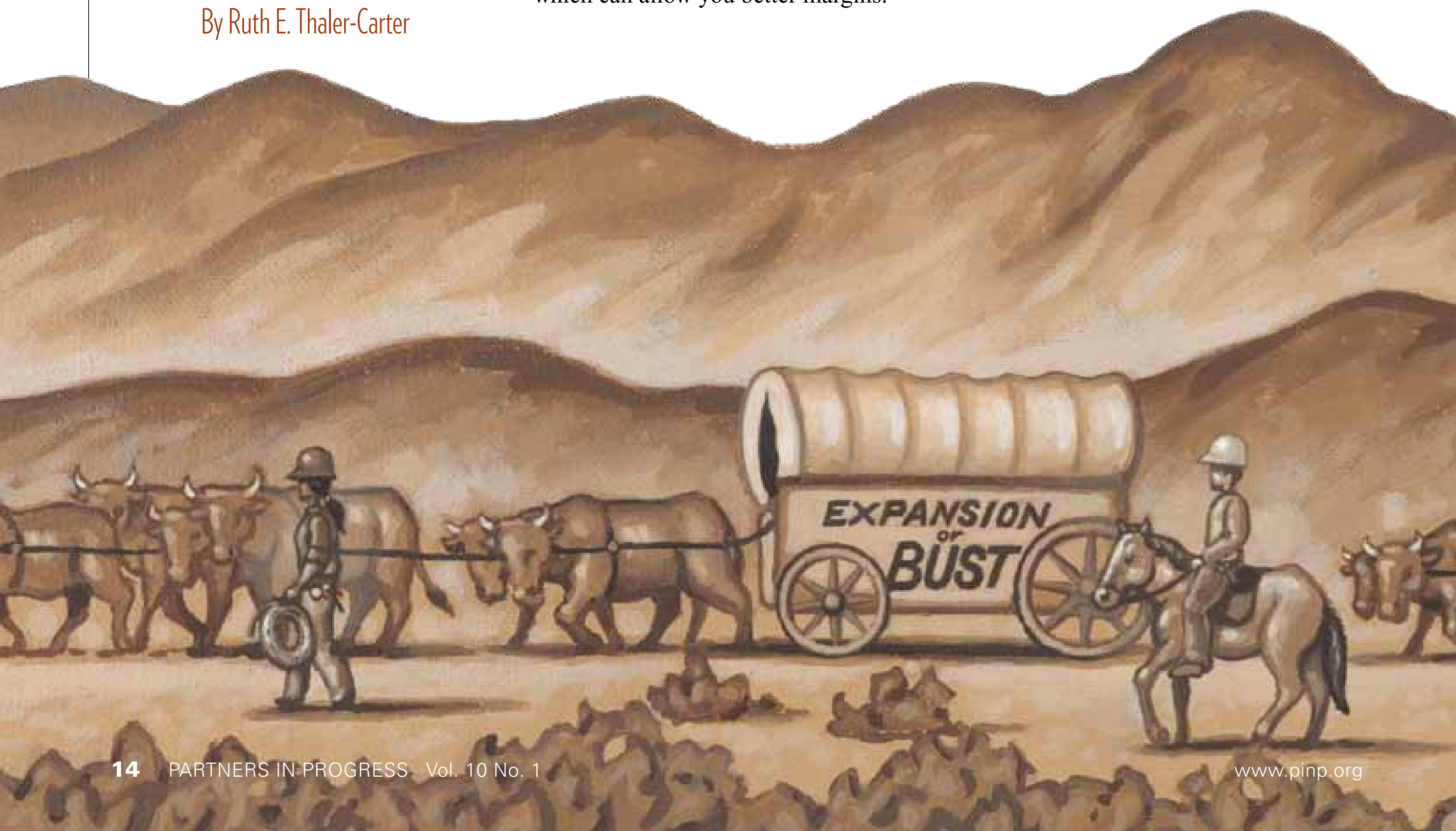
Horace Greeley once famously said, "Go west, young man!" His advice—at least in terms of willingness to expand into new geographical locations and market segments—is looking better and better.

Rewards for entering new markets can be substantial. "Being first into a market has its advantages," says Thomas Schleifer, author of the *Construction Contractors' Survival Guide* and a turnaround expert for companies in financial distress. "With new types of work, competition is limited and buyers don't have historic information about costs, which can allow you better margins."

Unfortunately, expansion does not always mean "sunny weather". "Entering new markets requires more effort and more risk than business owners often realize," Schleifer says. "It shouldn't be attempted lightly."

His biggest concern is that "risk is certain in an up market and even more so in a down market. That means caution is not just prudent, it is necessary."

Risks can be managed, but only if they are understood in advance. Schleifer says that expanding in size, taking on larger projects, and going after projects



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of different kinds or in different territories are activities that are the most likely to cause a business to fail.

Risk arises from inexperience, especially when it comes to estimating a new type of job in a new place with new personnel. "Doing what you've done before reduces risk," Schleifer says. Another risk reduction strategy is to work with a local union that has been providing the training and certification for the new type of work.

Growth and change for the sake of "growth" and "change" are not worth it. "These activities stress an organization. Under stress, a weak component can become a fatal component," Schleifer says.

Before expanding into a new market, Schleifer suggests answering a few questions:

- Is the business well-established, with financial stability and staying power?
- Is capacity—personnel, equipment, financing, technology—readily available?
- Is flexible, trainable supervision available?
- Are cooperative union relationships in place?
- Does management and labor understand the competition?

Were the answers "yes"? If so, then he advises a careful evaluation of the potential of the new opportunity:

- Is there really a demand?
- What is the size of the new market?
- Do the potential customers genuinely need the service(s)?
- Can the potential customer afford it?
- Is there an ongoing demand?
- Has the technology been tested?

Were the answers "yes"? If so, then it's time to start assessing the other risks:

- Has productivity been adequately tested?
- How reliable are estimates likely to be when no historic performance information is available?
- How limited is your labor force's experience with the work or area?

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Illustration by Eric Westbrook

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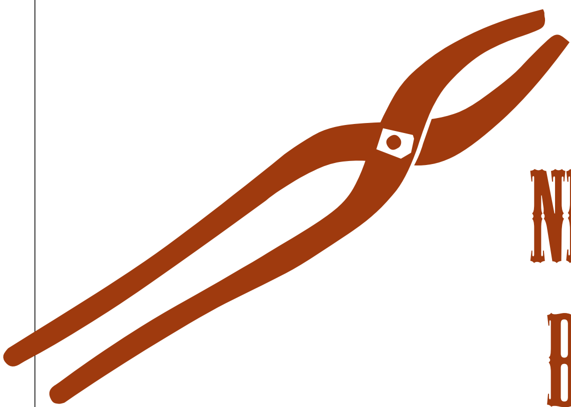
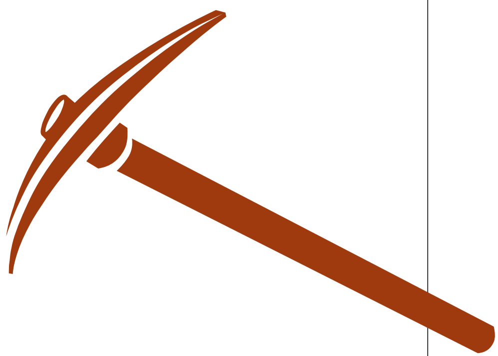
- How limited is your field supervision's familiarity with the work or area?
- Do you thoroughly understand customer expectations?
- What are the permitting and inspection capabilities?
- Is any SMART and SMACNA research available on the market?
- Have training initiatives and jointly negotiated national specialty agreements been developed?

Don't overlook the key factors associated with success or failure of market expansion efforts:

- The size of a project is critical to its success or failure.



REWARDS FOR ENTERING NEW MARKET CAN BE SUBSTANTIAL.



- Location of the project really matters; distance affects expenses and whether current employees can be used in the new market versus needing to hire locally in that market.
- Selection of appropriate personnel is essential.
- Top management oversight is necessary, regardless of where the new project or client is located.
- One success is not conclusive.
- There will be entry costs.

Where the rubber meets the wagon trail

Taking on a huge project in a new geographic area was a mixed blessing for Partlan-Labadie Sheet Metal Company, Oak Park, Mich., near Detroit. "We were riding an up-and-down roller coaster," Vice President Jeff Walters says of that experience.

Economic hardships of the past five years forced Partlan-Labadie to travel outside the Detroit region to find new clients and projects.

This particular market expansion effort didn't require performing any new type of work, but rather establishing a presence in a new location on a larger contract than normal.

"We previously had had success with smaller jobs in locations eight to 10 hours away, but this one was 12 hours away," Walters says. "That made a difference—no one could go back and forth regularly from home to the new location. Accommodating the need to stay in the new area added to the costs of the project."

Partlan-Labadie ended up sending 90% of its key personnel to that new location. "It meant there were not enough people to handle anything but the most basic work back home. It was a mistake that caused us to lose touch with our local market," Walters recalls.

Management hadn't considered the impact of that neglect. "We had a lot of confidence—or ego—going in and were humbled by what occurred. It took a year of rebuilding to repair the damage. We called the recovery process our 'hangover year.'"

Problems were compounded by the lack of personal interaction with clients back home. "Technology is convenient, but it's not the same as 'face time'."

Walters thought the electronic environment was sufficient, but, he says, it was the problem. "I was sending e-mail and attaching proposals, but it was not enough. Personal contact still means a lot."

Partlan-Labadie ended up spending the next year restoring relations with core clients. "It was almost like starting all over again in our backyard, even though we've been around for 123 years," Walters says.

"If you don't watch out, when you reach out to an area where you haven't been working before and bite off more than you can chew, it can be a disaster."

In the end, the expansion was worthwhile. Partlan-Labadie survived the effort and even made a small profit on the project. Though, Walters says, he would do things differently now if a similar opportunity became available.

"We need to be able to manage the job without depleting our resources…instead, we would team with someone located nearer the work site or at least hire new staff and use local support staff."

Yippie ki-yay

Allied Ventilation, based in Warren, Mich., had a much smoother expansion into new markets. "We took it in small bites," says Vice President Nick Seraphinoff, Jr. It was a strategy consistent with Schleifer's advice about reducing risk.

"We asked our customers where they needed us to be, and—within limits—we went there," Seraphinoff says.

He didn't worry about the smaller jobs. For larger jobs that did not promise to be worth the added risk, Allied either took a pass or budgeted so that the company would be covered for all contingencies, which, according to Seraphinoff, usually meant losing the work.

It was a technique that gave the company ongoing visibility while limiting its exposure to unmanageable risk. "We have to survive in the current economy when going after new markets," Seraphinoff cautions.

For Seraphinoff, the decision about bidding a project is based on whether or not it fits Allied Ventilation's expertise and falls within a certain volume in terms of size. "If it meets all of our criteria, I don't care where the job is," he adds, "but I want to make sure that no single job will devastate our resources."

His philosophy is working well, keeping Seraphinoff with backlog of projects in nine different states. (In Seraphihnoff's book, "backlog" is a good thing: "Backlog is our lifeblood!" he says.)

He never takes it for granted that there is enough work both underway and coming up. "My dad taught me that you're only as good as your last job, so you always have to be watching out for the next one," he says.

"By limiting risk and maintaining good customer relations, we aren't living paycheck-to-paycheck or job-to-job, and I can say we're a success." ■

Ruth E. Thaler-Carter (www.writerruth.com) is a freelance writer/editor based in Rochester, NY. She has written for the St. Louis Labor Tribune *newspaper and is a founding member of the National Writers Union.*

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National specialty agreements, training initiatives, and emerging market research are just some of the ways that SMART and SMACNA have for years encouraged contractors and local unions to position themselves to take advantage of emerging and growth markets.

Expansion into these markets in some cases is necessary for survival and in many cases is a clear means of growing the unionized sheet metal industry. "Signatory contractors and their labor partners must get more aggressive about going after new business opportunities," says Michigan SMART local 80 Treasurer/Financial Secretary Mark Saba.

However, exploring and entering new markets is an activity that requires more effort and encompasses far greater risk than is generally appreciated. It's vital to define the issues and recognize and manage the risks BEFORE making any trek into new territory.