



For Small CM Businesses, The Best of Times?

By John McKeon

Engineering News-Record's recent listing of the 100 largest professional services firms reconfirmed a trend that has been shaping the CM/PM market for years: The 20 largest companies on the list commanded more than 87 percent of all the reported fee revenue for the year.

CMAA's membership, though, includes more than 350 sole proprietors or small businesses, i.e., companies with \$5 million or less in annual fee revenue.

How are these smaller players managing? Given the persistent national economic doldrums, can a small CM make a go of it these days?

Yes, says Rebecca Jones, CEO of Safework, Inc., Woodland Hills, California, provided you have "a strategic plan, the ability to cut your budget to the bone, and guts of steel."

In fact, some CMAA members say small firms have significant advantages today in competing for and winning major jobs. "All you have to do is look at the majority of the government's solicitations to see that their main focus is the small business sector," says John R. Manning, PE, CCM, LEED® AP, principal of Kraus-Manning, Inc., in Orlando, Florida. "Being that the government has been and is currently the only major player in the construction industry, for the most part due to our country's economic situation, I would say that those individuals who own a small business have an advantage compared to much larger firms."

ICRC of Alexandria, VA, is a former small business that still relies heavily on partnering with small firms. "We believe that one-third of our future growth from a revenue perspective is dependent on good solid partnerships with small business," says President and COO Carl E. Williams. He cites a little-appreciated factor in the current positive outlook for small companies: The federal government has lost significant numbers of experienced contracting officers.

“The uncertainties in budgets tend to make the projects smaller and thus less attractive to the bigger players,” Williams says. “With a loss of acquisition talent, it is easier for the contracting officers to award to well qualified small businesses than it is to manage a more complicated full and open competition.”

Adding Value Through Lower Costs

In addition to their ability to appeal to government owners, small businesses bring major financial and management assets to the table. “There are many qualified companies or teams that can pass the technical qualifications of a bid,” Williams says. “The federal government is really looking at the lowest cost once a set of technically qualified respondents is identified, so the key to winning is having the best price. Small businesses, with their lower rate structures, add value by reducing the price.”

Skip Berry, president of the Louisville, Kentucky-based Wehr Constructors, notes that “with clients who still maintain the desire for performance-based selections, coupled with the lean professional administrative fees, the opportunities are numerous.” Likewise, many owners are coupling reductions in their in-house staff with an imperative to cut overall costs, notes Janet B. Cunningham, PE, president of JBC Associates, King of Prussia, Pennsylvania. “Smaller CM firms typically have the benefit of lower overhead rates that they can pass on to their clients...Owners can get the same level of service (as with a large firm) but at a lower cost, with a smaller CM.”

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Low cost, of course, can be a double-edged sword. “Our biggest challenges are occurring where CM firms are dramatically cutting professional service fees to maintain cash flow,” says Berry. “The competition for existing and new clients is constantly being ‘low dollar’ focused, rather than qualification or performance based.”

Sanford Loy, CCM, president of Construction Plus, Inc., in Knoxville, Tennessee cites another problem: “larger general contracting firms coming into my market claiming to be CMs when they really don’t understand CM services.”

Plus...some owners are “taking advantage of the tough labor market to hire at lower salaries within, if they have steady workflow,” says Manning. But Loy points out there’s another side to this coin, as well: “For firms who are bullish on the recovery, it is a prime time to cherry-pick talent larger firms have shed during their cutbacks, which normally wouldn’t be available in the marketplace.”

Personal service is another big plus small firms promote to potential clients and partners. “Flexibility, responsiveness, and person-to-person support,” says Chip Ossman of Ossman Project Management Consulting, Inc., Pasadena, California. “The owner has a relationship with a person, a responsible and capable individual, not just a large entity needing to keep a bunch of folks employed.”

Loy says, “As a sole proprietor and a CCM, I actually work on every project... the owner gets the benefit of my 35 years’ experience directly, not through two or three layers of employees between me and the project.”

Sound Teaming Strategies

Partnering with other firms is a perennial strategy for small CMs, but it’s important to look beyond the role of subcontracting to a larger firm. In fact, larger firms may not be the most promising team-building avenue. “My experience is that the teaming opportunities are greater with smaller, ‘startup’ CM firms than they seem to be with the larger corporations,” says Todd W. Niemann, CCM, of TWNiemann, Inc., San Clemente, California.

Ossman voices the same view. “Partnering possibilities are only as healthy as the market,” he says. “Sadly, very few large firms need a solo or small consultant, unless that small or solo is a minority/disadvantaged business, allowing the large firm to meet the social engineering goals of the major agencies.”

Reaching out to other types of potential partners can also pay off. “The healthiest partnering opportunities, I believe, are with design firms such as large architectural or A/E firms who have visionary leadership that understands the infinite value of having a CM partner on a project to minimize their liability as well as simplify and streamline the construction process,” says Loy.

Small CM firms and sole proprietors face the whole range of business challenges that go with an independent or almost-independent status. Rebecca Jones cites “providing a competitive benefit package to employees so that we can attract talent.” She adds: “Cash flow is always at the forefront, even if you have a great relationship with your banker.”

Cash flow is also front-of-mind for Niemann. It “can be an issue especially is you are working as a second or third tier subcontractor,” he says “Each tier is multiplied by 30 to get the number of days at a minimum that you will see your paycheck.”

The repercussions can be serious, says Manning. “Cash flow is directly related to landing jobs, and we are landing less jobs in part due to the fact that we have had to cut back in marketing. Many small firms have had to cut their marketing budgets and in doing so, it makes it harder to get their firms’ message out in a manner they would like to.”

Niemann says, “The volatile market seems to wreak havoc on projects and funding, thus making projects literally moving targets.” And project delays—from budget, political or legal causes—can also squeeze cash flows. Loy comments, “The impact on cash flow is more severe than for larger firms because you may see a 30 to 50 percent reduction in revenues temporarily, if only one or two projects get delayed.”

The CM/PM market will probably be even more dominated by large firms in the future, but hundreds of CMAA members are betting that their skills, attitudes, and energy as sole proprietors and small companies will enable them to continue finding clients and building business for years to come. [CM](#)

John McKeon is vice president of CMAA. He can be reached at jmckeon@cmaanet.org.



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