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## Transforming Your Organization for the Future

by Stephane McShane, Maxim Consulting Group

Contracting is a tough business that requires knowledge in a vast array of topics from insurance to contracts to means and methods. How can contractors simplify and standardize what they do? Most are finding a fragmented and broken process that is riddled with waste. Organizations have heard the term “Lean construction” but much like “prefabrication,” there is no consistent definition. General contractors have begun using some lean tools such as pull planning to drive project schedules with mixed success. What is outlined below is a strategic approach to using Lean tools and principles to transform a company and position it for long-term success.

### State of the Industry

Maxim Consulting Group’s view on the construction industry is that it is ever evolving at a faster pace than at virtually any point in history. Customers are demanding that contractors find ways to be better, faster, cheaper and safer, all while providing elevated levels of quality. The reality is the marketplace is changing quickly. Contractors that hang on to old paradigms and old business models will find themselves displaced at best and bankrupt at worst. While global competition is increasing, there are also several industry trends in the United States that are shaping the future of construction—pricing pressure and consolidation. With some owners and general contractors understanding best value over best price, the behavior of buying on price continues to be an ever-present market pressure. And consolidation is taking place in a variety of ways, but the big guys seem to be getting bigger and the small guys are becoming increasingly specialized. The middle market contractor is being pushed to the side. The trends are not going away and will require firms to reinvent themselves to remain relevant and competitive.

### A Vision for the Future and How You Implement

Below is an outline of the necessary infrastructure, systems, process and skillsets to combat and overcome these industry trends.

#### 1. Kitting Work Packages

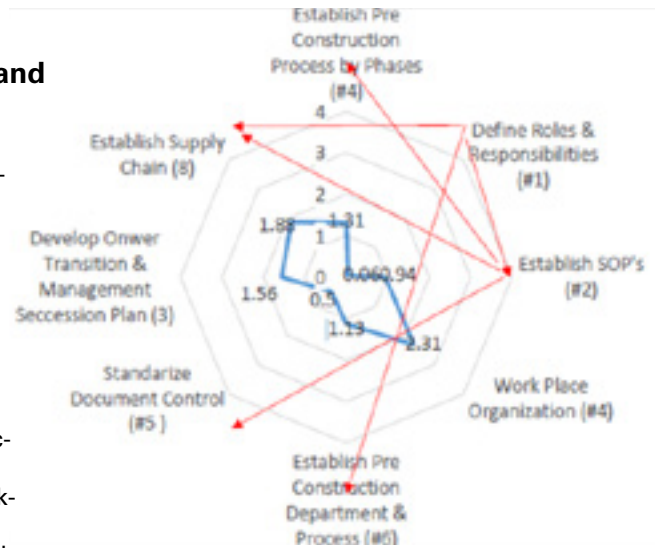
—A kit is an assembly or mixture of items that contain components needed in one package to complete a section of the job or an entire job. They are typically packaged in 5- to 10-day work packages. The approach allows companies to buy materials at the company level vs. the job level, resulting in significant savings that can make contractors more competitive in a price driven business. Productivity increases of 20 percent to 30 percent are not uncommon. Workforce shortages? Companies employing 100 percent kitting strategy can virtually double the available workforce because they can attract women.

#### 2. Value Stream Mapping

—An understanding of how the company currently operates is accomplished through VSM. There are four enterprise level maps in business, regardless of what industry you are in:

- a. Recruit to Retire
- b. Concept to Launch
- c. Buy to Pay
- d. Order to Cash

The purpose of doing this mapping is to fully understand the entire process and how things work “today” in a company. Your results should be to establish a 5-3-1: five things that the company is aware of, three they intend to fix, and one they will start with and finish before anything else. The 5-3-1 is



arrived upon using a radar diagram as shown above.

This method is a tool that identifies the many complex issues that need fixing and priorities in order in which to address them.

In order to move to a 100 percent kitting strategy there are several process gaps that must be addressed such as:

- 1) Unclear roles and responsibilities
- 2) Lack of process standardization
- 3) Inadequate enterprise level scheduling
- 4) Limited design and detailing standardization
- 5) Level of detailing requirements
- 6) Lack of manufacturing standards
- 7) Weak supply chain management
- 8) Lack of field installation standards
- 9) Poor facility and equipment planning
- 10) Insufficient training and development

How do you make these changes happen in your organization? It is noted that 73 percent of organizations that undergo any change initiative will fail.

The reason? There is no cultural support to make the change. The diagram below illustrates the issue and shows how the approach breaks the procedural cycle. Employees need to understand why the change is necessary and “own” the change.



## Recommended Governance Structure

A Lean transformation to move to a 100 percent kitting strategy is a massive undertaking and requires a detailed plan and governance structure to execute. The below diagram illustrates the recommended governance structure.



The executive team oversees the process but does not do the work. The core team consists of cross functional staff. The sub teams are launched at the end or near end of completing the VSM process.

## Expected Results

Companies that are bold enough to pursue this strategy should expect to have a long-term, meaningful competitive advantage which is difficult to mimic. The experienced results of companies that have gone down this path have been tremendous.

Here are just a few results:

- Cost Savings
  - Labor productivity improvements of 40 percent to 80 percent
    - Design throughput increased tenfold
    - Manufacture throughput increased
    - Install times reduced dramatically and with less field manpower
  - Material purchasing
    - Procure at company level vs. job level resulting in 10 percent to 18 percent material savings
- Improved safety (EMR) by 40 percent due to relocation of work in controlled facility
- Quality improved as it is built into the process, not inspected for
- Schedule reductions and ability to meet extremely demanding customer schedules
- Customer satisfaction on the rise and viewed as the “go to” contractor
- Scalability of business for growth and opportunity

These experienced results are real. One company has gone from \$10,000 per employee of margin to \$50,000 per employee. Another has increased revenue by \$40,000 per employee using the same number of people to perform substantially more work. The results are real but it takes courage and hard work to get there.

## Conclusion

There is no debating that the construction industry is changing at a rapid pace. Modularization and kitting are the ways of the future. The change will not come without tremendous effort and overcoming some familiar challenges such as:

- Lack of Vision
- Lack of Leadership
- Inappropriate Staffing
- “Old School” Mentality
- Trying to Gain Consensus

But, the companies that share this vision of the future will undoubtedly be positioned for long term success. To date, no other long-term, strategic solution has been presented to the industry that effectively deals with pricing pressure, schedule compression and manpower shortages. Are you ready?

*Stephane McShane is a director at Maxim Consulting Group responsible for the assessment and implementation processes with our clients. McShane works with construction-related firms of all sizes to evaluate business practices and assist with management challenges. With a large depth of experience working in the construction industry from the field to executive leadership, McShane is keenly aware of the business and, most specifically, operational challenges firms’ face. Her areas of expertise include leadership development, organizational assessments, strategic planning, project execution, business development, productivity improvement, and training programs. McShane is an internationally recognized speaker, mentor, author, and teacher. Her ability to motivate, inspire, and create confidence among your work groups is extremely rare and very effective.*