

## **Need of Marketing Strategies for the Winning Construction Company**

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### **Abstract**

Marketing departments and strategies are prevalent tools that can be found in almost every successful company and industry, but considered a rarity amidst the construction industry. The aim of this paper is to provide current and factual reasons for the small role that marketing strategies and strategic plans are playing in the majority of companies within the construction industry. Few questions that need to be addressed are “Do construction contractors feel they need marketing?”, “Are they currently employing any marketing strategies?” etc. In order to answer these questions a questionnaire survey was conducted from the US Contractors. It is attested by the results of the survey that a majority of construction companies and firms believe they can take advantage by reinvesting in their businesses through marketing. It is important to understand and categorize the marketing strategies employed by construction firm in contrast to the general manufacturing or services marketing methods which need serious customization to cater the needs of construction industry. Ultimately, by foreseeing and understanding the advantages of possessing a marketing department and strategic plan in the construction industry, a company or firm (of any size) can have a leg up on its competition. The paper first discusses the importance of Construction Industry and its relationship with the U.S. economy. Next, a discussion is made on the need of development of marketing strategy for the construction industry. Then results of the survey are presented that concieve logical and reasonable solutions to the problems that are faced by the construction industry.

### **Keywords**

Marketing Strategies, Construction Industry, Strategic Management, Competitive Advantage

## **1. Introduction**

The construction industry is one of the largest industries in the United States and continues to hold the rank of the largest single production industry in the American economy. The construction industry is renowned for the vast number of people that it employs. According to the Department of Labor in 2013 the construction industry directly employed about 4.9 million people, which makes it the second biggest employer in the U.S. (the largest employer in the U.S is the Federal Government which provides jobs for: law enforcement, branches of the military, IRS, Army Corp of Engineers, etc.).

### **1.1. Relationship of Construction Industry with the U.S. Economy**

The construction industry is also a strong indicator of how well the U.S. economy is doing. One aspect in which it plays a significant role is the Gross Domestic Product or GDP. The construction industry has normally been a consistent contributor to the GDP, usually being responsible for an average of 4-5% of the total GDP. Currently, problems in the U.S. and world economies have negatively affected its input. For instance, one thing that has negatively affected the construction industry of late has been the burst of the U.S. housing bubble. The causes for this problem stem from issues in the housing and credit markets such as: inability of homeowners to make their mortgage payments (due in part to adjustable rate mortgages/ARMs) borrowers overextending (i.e. government home loans by Fannie Mae and Freddie Mac), speculation and overbuilding during the boom period, etc. Initially, this caused the sub-prime mortgage crisis to unfold, however it also led to the collapse of the housing/residential sector of the construction industry, both of which are still ongoing issues.

### **1.3. Current Issues with the Construction Industry**

As mentioned earlier, the construction industry employs an immense number of people; however things have changed in the last couple of years. Some of the issues faced by the construction industry currently include: high unemployment rate (i.e. layoffs), delayed projects (stimulus projects, projects put on the bid backburner, or projects shut down in the midst of the building process), an overall increase in the number of competitors (both in and out of state) on bid lists, and low mark ups or profit markups on jobs being won in the bidding process. Following are the issues discussed in detail:

#### **1.3.1. High Unemployment Rate**

Many in this great country are facing hardships that have not been confronted earlier. One of the particular hardships that have affected many in the U.S. is the high unemployment rate and loss of jobs that has hit the nation like an epidemic disease for the last couple of years. Although the construction industry was spared the initial waves that hit other industries such as manufacturing, it has been afflicted with the “unemployment bug” for some time now and according to the BLS is now the leading industry in unemployment rates with 9.8% (BLS, 2013<sup>a</sup>). According to the Associated General Contractors or AGC (2013): Between June 2010 and June 2013 the number of unemployed former construction workers shrank by 960,000, while contractors added only 305,000 employees, implying that more than 600,000 experienced workers left the industry. This statement really sheds light on the present situation and just how arduous last few years for construction industry have been. What once was a plentiful and healthy industry offering an abundance of projects to bid on, as well as a viable number of jobs for workers has had a downturn for the worst for many U.S. contractors.

#### **1.3.2. Delayed Projects**

The delay or shut down of projects even when some of the work has been completed seems to be happening everywhere in the U.S. For example, in just New York City alone developers have stopped construction on at least 30 sites (Post, 2009). There seems to be several reasons for the postponement or cancelation of the projects; some of the causes (and example of each) include: New Ownership (Cosmopolitan Resort & Casino in Las Vegas Nevada), Fewer Visitors (Caesar’s hotel tower also in Las Vegas, Nevada), Lender Bankruptcy (Centerpoint Condominiums in Tempe, Arizona), and High Bond Interest Rate (Waterview Tower in Chicago Illinois). According to Mike Bohn, senior vice president and regional manager of Gilbane Building Co.: “Most of his company’s projects are not being canceled, many are being delayed by six months to a year or more due to the high cost of raising money. Even if you can sell bonds, the interest rates are too high” (Post, 2009).

#### **1.3.3. Fierce Competition**

Another problem that is faced by the contractors is the increased competition that is being faced in the bidding process. Additionally, the competition is not only faced in increased numbers but also seemingly arriving from diverse fields to bid. For example, contractors that previously specialized in certain markets now are looking to land work wherever they can find it. Going out of state or bidding in new sectors is

commonplace. “We are seeing a lot of subs that we have never heard of before,” says Doug Savage, director of marketing for KK Mechanical, Roy, Utah (Wright, 2009).

## **2. Marketing and the Construction Industry**

Marketing and the construction industry share a lot in common, just as marketing and sales in retail industry go hand in hand, however they have not coincided well. There are two reasons that marketing has not been more of a focal point in construction companies and firms in the U.S.: 1.) Personal relationships and word of mouth recommendations and 2.) Companies and firms are just harder to market. Owners and executive management of construction companies and firms have long focused their attention on marketing incorrectly. According to Bedoya (2009): “Great strides have been made to identify and address ways to improve the principles that constitute professional service marketing for the A/E/C industry; however, research continues. Prior to the 1970’s, many architects and engineers believed developing personal relationships and creating word of mouth recommendations were enough to win work. In the 1970’s and 1980’s, articles and books were written to articulate changes in this concept and to adopt a more formalized method of marketing.” Since the 1980’s no other sufficient breakthroughs have occurred in marketing in order for it to play a more crucial role in the construction industry.

The second reason that companies and firms in the construction industry are having a major problem incorporating a better marketing strategy is that it is hard to market them. For instance, in the retail industry a typical retail store will have a large marketing department. The main purpose of the marketing department is to “act as a guide and lead the company's other departments in developing, producing, fulfilling, and servicing products or services for their customers” (Obringer, 2009), which essentially is to attract more business for the company. Some of the ways that the marketing department in the retail industry do this is through the development and running of advertisements on the radio, newspapers, television, and billboards, implementing weekly specials within the store (i.e. on sale items, black Friday sale), construct creative “catch phrases,” etc. The construction industry, on the other hand is a very different “beast.”

### **2.1 Different Marketing Needs of Construction and Retail Industry**

The first difference between the manufacturing industry (or almost any other business for that matter) and the construction industry is that the majority of companies and firms within the industry are defined as small According to the AGC (2013): The United States had 811,500 construction firms in 2007, of which 91% were small businesses employing fewer than 20 workers. Many of these companies and firms do not have a marketing budget much less a marketing department. The second major distinction between other industries and the construction industry is the amount of money available for each to market. When in comparison to almost any other industry, the construction industry is very convincingly surpassed in marketing. As mentioned before, companies in other industries such as the retail industry, will not only have marketing departments but these departments contain an extensive amount of employees that have been educated from higher learning institutions in business marketing and more importantly “real world” experience in such a field. Additionally these same employees will also have the luxury of having sizable budgets to promote their respective companies and firms (i.e. Roundy’s, Wal-Mart, Kohl’s, etc.).

The fundamental difference between the construction industry and others is the manner in which money is made and subsequently used. In other industries, there is a large budget for marketing. The money that is budgeted and allocated for marketing comprises from a percentage of the total amount of products and goods sold (i.e. grocery goods, boat motor, vehicle, etc.) for a period of time (i.e. weekly, quarterly, annually, etc.). In short, a company or firm in another industry, such as the retail industry, can figure its exact marketing budget before the upcoming business year. The construction industry, on the other hand, is not awarded the same luxury. This is predominantly because for some contractors the total amount of

business for the upcoming year can be in question before the business year is even underway. Another difference between manufacturing industry and construction industry is that for manufacturing industry the profit is estimated as percentage of sales while in construction industry profit is measured as percentage of revenue as has been done by Arditi and Davis (1988) thus both the aspects need to be given proper treatment before comparison. Some of the various reasons for the volatility of the construction industry are rooted in the nature of the business: the bidding process (amount of jobs secured this way), project start time (i.e. early start or delays), while some are caused by unforeseen or unpredictable circumstances, (i.e. the current sub mortgage crisis, a natural disaster, bankruptcy of subcontractor, etc.).

## **2.2 Reasons to Establish Marketing Departments**

What is the solution to the marketing problem in the construction industry? One of the things that can be done and will also improve a company's amount of work and profits is to improve or instill a marketing department and strategic plan. There are two very good reasons to either initially establish or improve on the marketing in a construction company or firm. First, when there is nothing to lose; a lot of businesses and industries in the U.S. have felt and are currently feeling the bite of the recessive economy. Even though it has been a tough couple of years to say the least, it will turn around and companies should not lose hope. It should be realized and understood by upper management that it is also a prospective time to improve some of the weaknesses within the company while the construction economy improves and becomes more stable. Second, change is good; just as architects and design engineers had unenthusiastic and pessimistic feelings when the original AutoCAD software was introduced, the same feelings will probably be encountered with the introduction of a marketing department and strategic plan. As many in the construction industry would deem such a feat as impossible, the ability to incorporate a sustainable marketing department and strategic plan in a construction company or firm is not. It is true that it would be a great undertaking to integrate them initially.

## **2.3 Marketing Strategies**

There are generally four types of marketing strategies that are typically employed in the business world today, based on the Ansoff's Matrix.

### **2.3.1 Market Penetration**

When a company or firm establishes itself in an already existing market. (i.e. construction company is bought or started up).

### **2.3.2 Product Development**

When a company or firm creates a product or service that has new or different characteristics which provide new or additional benefits to the customer. (i.e. Apple's iphone with the extraordinary amount of applications that can be tailored to any persons liking)

### **2.3.3 Diversification**

Increases the sales volume of the company or firm through the development in new products or new markets. There are three types of diversification: Concentric diversification , Horizontal diversification and Lateral diversification

### **2.3.4. Market Dominance**

It is the measure of strength of a brand, product, service or firm. In order to measure the effect, the overlying element is usually a geographic area that specifies as to what extent the brand, product, service or firm controls the product category (i.e. more people in Spencer drink Pepsi than Coke).

Although there are numerous strategic plans to choose from, only one can be utilized by a company or firm. Executive or Upper management should choose the particular strategic plan that is best suited for

the company or firm. One of the most appropriate fashions in which to do this is proposed by Warszawski. According to Warszawski (1996): “The selection of an appropriate strategy through an orderly process is assisted by an analysis of a company’s strengths and weaknesses compared with its competitors.”

### **2.3 Marketing Methods for Construction Industry**

In a study conducted by Arditi, Polat and Makinde (2008), a survey was conducted from 400 Top US Contractors and on the basis of the responses ranking of five marketing factors was done. These factors are 5P’s and were ranked as: 1<sup>st</sup> Product; 2<sup>nd</sup> Price; 3<sup>rd</sup> Place; 4<sup>th</sup> Promotion, and 5<sup>th</sup> People. Customer Satisfaction was regarded as the top most whereas “setting up scholarships/endowments” and “providing clients with event/travel tickets” were considered to be the least important marketing activities. In another study conducted by Mochtar and Arditi (2001) marketing intelligence practices currently pursued by contractors were established. These include mostly traditional activities such as “talking to current and prospective clients”, “talking to managers within the company” and “reading trade publications.” More involved intelligence gathering methods such as “conducting marketing research project”, “developing Management Information Systems (MISs) and Decision Support System (DSS),” and “searching the Internet” are not used extensively.

## **3. Survey**

For this study, fifty surveys were sent to construction contractors in the U.S. to investigate market-based strategies being employed.. Of the 50 surveys mailed to the contractors, 18 (or 36%) were returned duly filled out. The construction companies varied in size from small (15 or less employees) to large (over 100 employees). The companies were located throughout the U.S. and worked in almost every type and category of construction including: heavy, industrial, building construction and residential. Questionnaire design is elaborated in the next section and followed by analysis.

### **3.1. Questionnaire Design**

The questionnaire comprised of fifteen questions. First, the experience of the contractors was asked then the type of construction such as Infrastructure development, Building Construction, Industrial Construction etc. Next, it was asked if any budget for marketing and advertisement was dedicated as well the perception of the allocated budget interms of little, substantial or too much was enquired. Following marketing strategy currently adopted was asked. Then a few questions were asked on how much business is attracted through marketing. After that a few questions were asked regarding the involvement of administration hierarchy in marketing as well as the involvement of top management for marketing.

### **3.2. Survey Results**

Results of the 18 returned surveys from contractors in the U.S. provide a great overview and insight of marketing in the construction industry. The average experience of the firms turns out to be 67.4 years which is adequate to establish firm findings on the basis of the responses. The results of the survey are analyzed and discussed in the following section.

### **3.3. Survey Analysis**

Eighty nine percent of the contractors confirmed that they have a marketing budget, however, it is essential to note that this marketing budget covers the printing of company logo and self-laudatory statements on documents, stationary and all sort of material possessions of the company such as offices, vehicles and equipment.

Sixty-seven percent contractors state that very little was spent on marketing the company and thirty three percent feel that the expenditure is substantial. This is due to the fact that very little is spent on Television Commercials, Newspaper Advertisement which can be used to target masses but construction Industry have targeted audience; so brochures sent by mail or email, holding or participating in exhibitions and donating or working at lower costs during natural disasters and national catastrophes are the marketing strategies currently adopted. Another point to note is that usually contractors do not hire external agencies to market their services so the expenditure remains low. This gives a perspective that very little is being spent for the same.

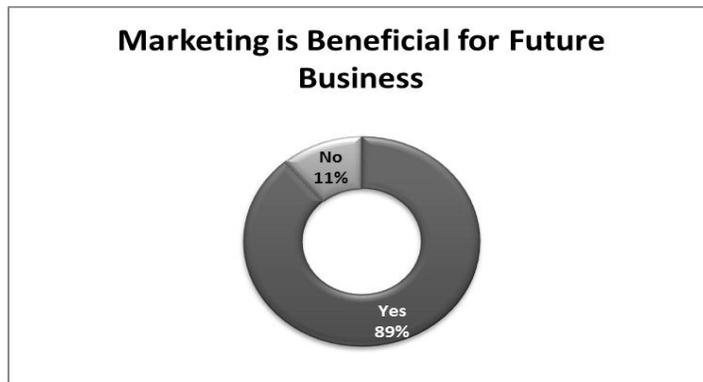
Fifty Six Percent of the responses selected Market dominance as the marketing strategy. It is very much understandable because these firms are general contractors and they aim to dominate the market by acquiring the whole project then further subletting and earning profit at both ends. Thirty three percent to opt for growth strategy as these might be new firms looking for an increase in an annual turnover.

The results discussed above are summarized in the following Table 1.

**Table 1- Survey Results**

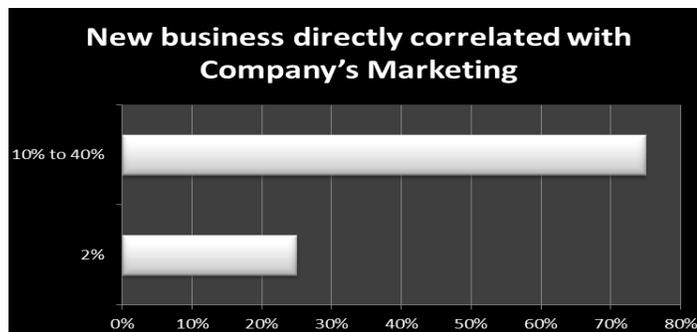
<b>Question Statement</b>	<b>Response Nos.</b>	<b>Percentage</b>
<b>Does your company have a marketing/advertising budget?</b>		
Yes	16	89%
No	2	11%
<b>If Yes , How much money is spent on marketing/advertising budget?</b>		
None	0	0%
Very Little	12	67%
Substantial Amount	6	33%
Too Much	0	0%
Don't Know	0	0%
<b>What type of marketing strategy does your company employ?</b>		
Market Dominance	10	56%
Growth Strategies	6	33%
Innovation	3	17%
Other	1	5%
None; we don't have a marketing / advertisement strategy	2	11%

Eighty nine percent respondents felt that it would be more beneficial in the future if the company or firm that they worked for would incorporate more marketing in the future (Figure 1). This guarantees an established marketing field for construction industry as employees feel marketing can help their business improve.



**Figure 1: Marketing for future business.**

There seems to exist a direct relation of new business with Company’s marketing efforts as most of the contractors feel that 10 to 40 percent of new business is obtained by marketing efforts. (Figure 2)



**Figure 2: How construction companies/firms view importance of marketing**

The responses for importance of marketing can be seen in figure 3. Thirty eight percent of contractors believe that marketing is very important for their growth and survival while thirty seven percent contractors feel that it is important and twenty five percent regard marketing lowly and think that it is somewhat important.



**Figure 3: How construction companies/firms view importance of marketing**

## 4. Conclusion

A survey was conducted for the contractors of United States assessing their perception about marketing, their current expenditure on marketing and future behavior in this regard. From the survey it can be concluded that majority of the companies find marketing important and beneficial for future business. Most of the firms have a marketing budget, but mostly it is very little. Firms usually adopt market dominance strategy while some go for growth strategy. There is a lot of opportunity for research in this regard so as to devise a strategy for the implementation of marketing applications in Construction.

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