
Breaking the Mold

**Commoditization:
How to overcome a major
threat to a firm's success**

By Samuel Greengard

In this era of rapid change, from globalization to emerging technologies, delivering value to customers and clients is more complicated than ever. A/E firms find themselves facing an increasingly competitive and cutthroat marketplace—with clients who don't always recognize or want to recognize differing values in products and services. The result is that as pricing pressures increase, so does the risk of engineering services becoming commoditized. >>



Engineers On Sale



In more than 900 responses by Member Firm CEOs, presidents and chairmen to the *ACEC Engineering Business Index* quarterly survey in 2014, commoditization was consistently named the third biggest threat to an engineering firm's success, behind only adverse economic trends and a lack of public/private funding.

A Growing Threat

All businesses face pricing pressures, but it's clear that things have changed in the A/E industry over the last few decades. While products such as steel, coffee and pork bellies are clearly commodities, engineering and design services increasingly face many of the same pricing pressures—even at firms that are acknowledged industry leaders. Today, more procurement strategies and selection processes focus heavily on lowest-cost providers.

"I'm not surprised at all that commoditization is ranked so highly among threats to an engineering firm's success," says Ray Kogan, president of Kogan & Company, a strategy and management consulting firm for the design and construction industry. "It's always been a chief concern among industry leaders and specifically since the beginning of the recession."

Kogan explains that during the recession clients and firms were increasingly compelled to emphasize lower costs—from the client's view to get a project started, and from the firm's view to keep people employed.

He says that scenario added to the notion of there being no differentiation in the engineering product—a notion that is growing today and representing the industry's own version of a "recession hangover."

Most experts believe that some commoditization has always occurred—and some practitioners actually thrive as low-cost commodity players because they're able to deliver basic or turnkey services very efficiently.

Kogan notes there will always be clients who will never understand or accept



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WILLIAM D. LAWSON
TEXAS TECH UNIVERSITY

differences in professional services such as engineering—differences in experience, quality and the people. "These incorrigible clients will never see engineering other than 'get the lowest price,' and there are engineering firms that actually win that kind of commoditization battle."

That commodity model is an approach that often upsets other practitioners. "Commoditization devalues the industry as a whole," says Mike McMeekin, president at Lamp Rynearson & Associates and chairman of ACEC's Management Practices Committee.

The challenges of commoditization to the industry are magnified due to several factors: technology and growing access to data and information, social media tools that allow organizations

to see what's taking place in the field, and an abundance of players in the A/E field, including upstarts located outside the U.S.

As Terry L. Giles, president and CEO of Giles Engineering Associates, explains: "Technology is a double-edged sword. It introduces new opportunities but also new challenges."

Databases, maps, aerial photos, satellite images and reports that once required specific knowledge or proprietary access are now widely available online. It's now possible to access special libraries with a click rather than embarking on a several days' trek across the country. At the same time, design and engineering firms—as well as those contracting with these companies—can outsource discreet tasks to consultants and third-party providers, often at significantly lower prices. Finally, Giles says, the concept of value is changing. "In many cases, clients view reports and other documents as commodity items. There is a lack of understanding about what is required to produce and interpret them."

The result is downward pressure on pricing. Sociologist George Ritzer, a distinguished professor at the University of Maryland, has coined the term "McDonaldization" to address an overarching social

trend toward standardization, efficiency and uniformity.

William D. Lawson, an associate professor in the Department of Civil and Environmental Engineering at Texas Tech University and a former practitioner in the field, says, "It's about consumers desiring systems—and companies responding by creating systems—that deliver products and services in a reliable and expected way. A certain amount of autonomy is forfeited by professional services firms in order to satisfy the demands of the marketplace."

Lawson believes that this ongoing trend—accelerated by information technology and macroeconomic factors—contributes to a belief by some that all A/E firms are essentially equal and that price is a suitable criterion to differentiate and assess knowledge and expertise. "People purchasing engineering services aren't as awed by professional knowledge as they once were. It's a reality that cuts across professions and fields."

Facing the Challenge

Navigating an increasingly challenging business environment and conquering commoditization requires new thinking, a more strategic business framework and a high level of communication with both prospective and existing clients. While some firms may succeed by cutting costs and improving efficiency—including turning to foreign firms that handle drafting work and other less strategic tasks at one-fifth or one-tenth the cost—the overall equation is far more complex. The reality is that there's no single or simple fix.

One supported strategy is to continue to educate and encourage lawmakers and government agencies to enforce existing Qualifications-Based Selection (QBS) laws. In the *ACEC Engineering Business Index*, 41 percent of survey responders believe this, more than any other factor, is the best defense against commoditization.

McMeekin works within professional societies and organizations to advance QBS processes. "It is important that we have laws and procedures in place that focus on qualifications," he says. "We must work together and with other professional societies in both the public and private sectors to create a framework based on value and qualifications."

ACEC was the driving force that prompted Congress to adopt the Brooks

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The intersection of culture and performance

Act in 1972 requiring the use of QBS for the procurement of architect and engineering services. By law, QBS mandates that since engineering is a highly skilled service—a service that directly affects the health, safety and welfare of the public—it is important that only the most qualified and experienced firms be tasked with these critical functions and not be selected on the basis of cheapest price. While efforts to circumvent QBS occur, ACEC remains active in ensuring that the law's mandates are followed. QBS is used by all federal agencies, 46 state governments, and many localities throughout the nation.

Differentiation

Kogan says a primary key to combating commoditization is differentiating your firm by portraying “superior intellect” on a particular project. “What a client really wants is what’s upstairs,” he says.

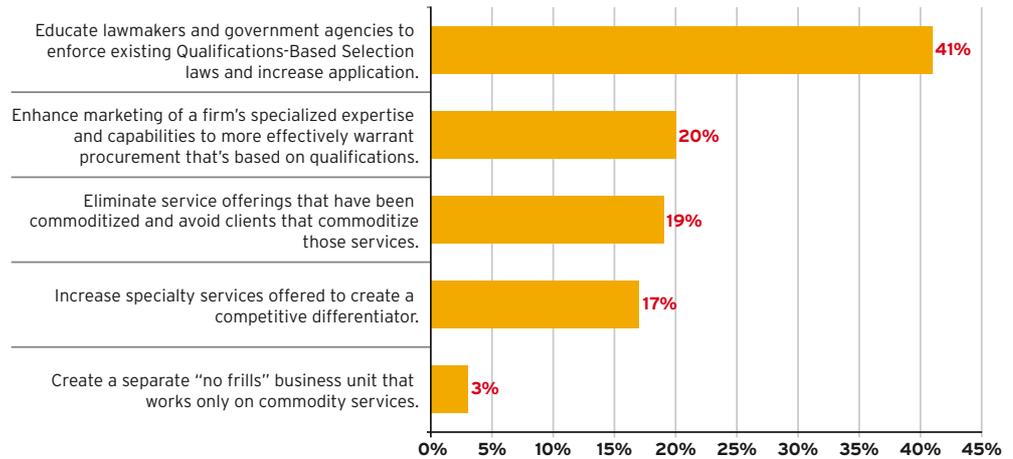
“Presenting to a client that your firm is a true knowledge leader in a particular area, possessing specialized expertise that adds perceptible value, is what will make a client willing to pay extra.”

Another important step is to boost your firm’s marketing and communicate the value of the expertise and capabilities you provide. Be clear about what makes your design and engineering services stand out.

Giles Engineering Associates trains engineers and other professionals to ask a detailed set of questions and work with clients in a highly collaborative way. “We work to save money, create more efficient projects and solve problems. The goal is to create a long-term relationship and deliver maximum value,” Giles says.

Catchy slogans and lofty mission statements don’t necessarily translate into

Best Defense Against Commoditization



Source: ACEC Engineering Business Index (Fourth Quarter, 2014)

results, Giles says. “The expertise your staff displays and how they demonstrate and communicate their knowledge is extremely important. If you go to a meeting as the principal of the firm, you can’t be the only person that speaks; you have to have the rest of your staff, whoever you happen to bring to a meeting, participating. This includes young associates who are handling many of the tasks and interacting with key people at the client firm,” he says. “It’s critical that they have a level of confidence and the knowledge to address important tasks and engage in technical and business discussions.”

Another way to protect a firm from commoditization is to eliminate service offerings that have been commoditized or consider breaking off a still profitable but commoditized activity into a separate unit or company. Similarly, firms benefit by adding new and higher-margin products and services and marketing them effectively. “The environment is constantly changing, and there’s a need for ongoing analysis and re-evaluation,” Lawson says.

Forward Thinking

Understanding the dynamics of today’s business environment is essential,

says Bill Siegel, president and CEO of Kleinfelder. “The thing that’s important to focus on is that coffee may be a commodity, but people spend \$5 at Starbucks when they can spend about 50 cents at a 7-Eleven,” he says. “Commoditization exists—it is driven by buyers—but it’s all about differentiating yourself in the eyes of a client. The real issue is whether we allow this to happen to our industry.”

At Kleinfelder, this differentiation begins with rejecting projects that aren’t a good match. Siegel says that a firm can establish itself as a technology leader, a service-centric organization or a low-cost provider, but not all three. Ultimately, it’s critical to “figure out which parts of the business allow you to differentiate yourself and which parts are in fact a commodity. You have to focus on value in the areas where you have an advantage,” he says.

“It’s important to think in a more flexible and agile way,” McMeekin says. “You have to constantly monitor the business environment, technology and the overall marketplace and understand how to stand out.”

“Every client has their own hot buttons,” Kogan says. “If you can demonstrate superior intellect that addresses a client’s highest priorities, and impress them with your thought leadership in that specific area, then you will have effectively combated commoditization.” ■

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