

A GREAT SERVICE FORUMS<sup>SM</sup> WHITE PAPER

# THE **60** **40** SOLUTION

FOR UNION ELECTRICAL CONTRACTORS



**Great Service Forums<sup>SM</sup>**  
GET THERE FIRST.

## What is the 60/40 Solution?



### ONE COMPANY, TWO BUSINESSES

If your electrical contracting firm performs both new construction and service-related activities, you have one company, but two very different businesses.

New construction and service-related activities are not different magnitudes of electrical work. Rather, they are two different kinds of business. Service is not a scaled-down version of construction.

Everyone understands the difference between a manufacturing company's factory work and its aftermarket services. The same kind of distinction applies to new construction and service-related activities in electrical contracting.

At Great Service Forums<sup>SM</sup> we believe that electrical contractors should strive to achieve a 60/40 balance between the revenues of their new construction and service-related activities. A company with a \$10 million top-line should balance \$6 million in revenues from construction with \$4 million from service.

In this white paper we note that, among myriad other benefits, electrical contractors with a 60/40 ratio enjoy a unique, built-in source of competitive advantage for their companies.



## 60% OF YOUR REVENUES = NEW CONSTRUCTION

In a 60/40 business model, 60% of an electrical contractor's revenues come from new construction. Most electrical contractors are confident of their abilities in new construction. There are many sources of training geared to the development of their project managers. On most new construction projects electrical contractors are one of many players. They are guided through the course of the job by a general contractor and others.



## 40% OF YOUR REVENUES = SERVICE-RELATED ACTIVITIES

For most contractors being able to achieve a 60/40 ratio means having to ramp up their service-related activities. This will heavily depend on the skill sets of their service manager. Traditionally, the electrical contracting industry has failed to fully understand the unique needs of that position. However, it is impossible to scale-up a company's service-related activities without first putting in place ways to make the service manager's job easier.



## MAKING THE SERVICE MANAGER'S JOB EASIER

At Great Service Forums<sup>SM</sup> everything that we do traces back to a basic objective of making the service manager's job easier. In their service-related activities, unlike new construction, electrical contractors have to devise their own operating methods. Our mission is to help contractors meet this challenge and make the service manager's job easier. Without accomplishing that, an electrical contractor can never achieve a 60/40 solution.

## Why go for a 60/40 Solution?



It gives your company a unique competitive advantage.

Electrical contractors adhering to a 60/40 business model gain a two-way competitive advantage for their company. To begin with, they make every type of new construction job (except for certain public work) a launch pad for future service-related activities. At the right time in each new construction project they blend in electricians from their service team. Their service team gets to know the facility and the customer's organization. They will look at the installation with its future maintenance requirements in mind. If they go on to provide service-related activities for the facility, they will be in position to capture pull-through work and even new projects as a "preferred provider."

On the other hand, with the benefit of inside knowledge, when the service team sees a larger new construction project in the offing, they can pave the way for their company's construction team.

Electrical contractors that diligently pursue a complete 60/40 strategy enjoy this built-in competitive advantage. Better yet, their customers enjoy being able to consistently depend on a contractor that they know and trust.



It builds the market value of your company.

Everything has a fair market value. The FMV for construction-only contractors is limited. But a service business with steady customers, higher margins, better risk-profile, and recurring revenues is valued differently. Contractors with a 60/40 revenue mix warrant a higher market valuation. Their service component makes the difference. Most electrical contractors can achieve a 60/40 revenue mix—including many that think they are too big to attempt it.



It presents a solid growth strategy.

Financial risk in new construction begins at bid time and never ends. While no business is without risk, service-related activities create far less exposure than new construction. Of note, a 60/40 strategy offers an opportunity for next-generation leaders in a company to chart a new course for growth and seize on something to call their own.



It can double your bottom-line profit.

Ramp up your company's service activities to 40% of its total revenues and the bottom-line profit from combined results of construction and service will be at least twice a construction-only net. When having this added source of revenues allows you to forgo low-margin projects, the bottom-line will look even better.

## How to Reach a 60/40 Solution



Structure your company as a two-business enterprise.

Attaining a 60/40 ratio requires planning for new organizational structure, systems, and staffing—in that exact order. Every company will have its own way of doing that. It could likely involve an intermediate step to carve out a set of existing accounts to kick-start a new service-related group. But, clearly, moving to a new organizational structure must come first.

While a critical aspect of the new two-business structure is the separation of new construction and service-related activities, in a successful 60/40 model the utmost degree of cooperation between construction and service teams is critical. Their back-and-forth exchange of new sales leads is key to gaining and holding competitive advantage.

Incidentally, tracking the *attachment rates* of all successful hand-offs between the two—construction to service and vice versa—is essential scorekeeping. While contractors are often guilty of failing to have adequate financial reporting, they are worse at maintaining non-financial reporting. Attachment rates are a prime example of KPIs (key performance indicators) that we advocate.



Install systems essential to service activities today.

Decisions about support systems come second. They include the selection of software made for service-related activities. Whereas field service software products are in wide use in mechanical service contracting—for example, for scheduling and dispatch—the means and methods that most electrical contractors use today were obsoleted by mechanical contractors years ago. Field service software is a strategic focus for us at Great Service Forums<sup>SM</sup>. We help electrical contractors address this most essential need.



Build a team of service professionals—and never stop.

Historically, electrical contractors who have started up service organizations have formed them around members of their office and field staff who had demonstrated talents and abilities working with customers. That approach is opposite of what we are prescribing here. Contractors who follow the sequence in the order that we are outlining here will enjoy the most success, because the best and the brightest candidates from either inside or outside the company will be attracted to an organization that has its structure and systems fully determined before proceeding further.

## The Great Service Forums<sup>SM</sup> Story

We started Great Service Forums<sup>SM</sup> over five years ago to fill an unmet need. Although the industry was overflowing with education, training, and other forms of support for electrical contractors' project managers and supervisors of new construction projects, there was virtually nothing comparable for electrical contractors' service managers. While other industries regarded service-related activities as an "aftermarket," the electrical construction industry treated it like an *afterthought*. Many still do. Many electrical contractors think of service-related work as merely a scaled-down version of new construction. But it is not. Service-related activities and new construction are not two sizes of the same thing. They are two different businesses. And the service manager's responsibilities represent a set of challenges all their own. The mission that we have taken on has been described as *making the service manager's job easier*. We didn't coin that phrase. But we like it. It's what we want to do.

Call us to learn about a place available for your company in the Great Service Forums<sup>SM</sup> network.



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