

Gaining Market Share as a Union Specialty Contractor in San Diego: A Case Study

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San Diego is one of the few major cities in California to have a larger share of non-union labor compared to union labor in the private specialty construction sector. Although union labor is on the rise in large cities due to California's strict labor wage laws, union specialty contractors are still running into challenges in terms of competitiveness in the San Diego area. Western Specialty Contractors has first-hand experience with competing against non-union contractors in San Diego. This paper will outline the methodology Western Specialty Contractors took to gain market share in San Diego. This paper will also focus on how employees, relationships, quality, and safety are key factors that differentiate a union contractor from a non-union contractor. These subtle differences can help award a union specialty contractor a project in San Diego.

Keywords: San Diego, Union vs. Non-union, Case Study, Specialty Contracting

Introduction

Union Specialty Contractors in the San Diego private sector have had some challenges competing against non-union contractors. The wage of the employees in a local union versus the wage of employees in the United States is on average 20% higher than their non-union counterparts (Department of Industrial Relations, n.d.). This could make a non-union company more competitive because it can choose to pay employees at the state minimum wage rather than the union's minimum wage. Since labor is such a big cost for construction, employers are now seeking to hire more non-union workers because the nature of competition is on the rise. Studies have shown a decline in unionization from the 1960's to present day (Allen 1988). The Department of Industrial Relations illustrates the decline of unionization as a result of higher labor costs (See Figure 1). Unionized labor was at an increase until about 1960 when it suddenly started its decent. This decline in unionized laborers can create a challenge for employers choosing to hire union employees. The total construction cost can be higher making the union contractor less competitive. A lower total cost does not always mean better value. So, this raises a question: are owners getting the best value for their money?

Unions pledge to provide trained, qualified, and licensed tradesmen in their respective trade. Most unions have an apprenticeship program and promote a better quality of work-life balance for the tradesmen. Non-union shops could have the same benefits, wages, and everything that a union shop has except it is not a guarantee. That guarantee of quality through trained personnel can be important to an owner and has helped contractors, such as Western Specialty Contractors, differentiate themselves.

The advantage of working for the private sector is the owner does not always choose the lower price. The owner has the choice to choose the contractor that is going to bring the best value to them. Western and its managers in the Los Angeles office have studied what works and what doesn't when competing against non-union companies in San Diego. The purpose of this paper is to explain the methodology Western Specialty Contractors used to succeed in the San Diego market.

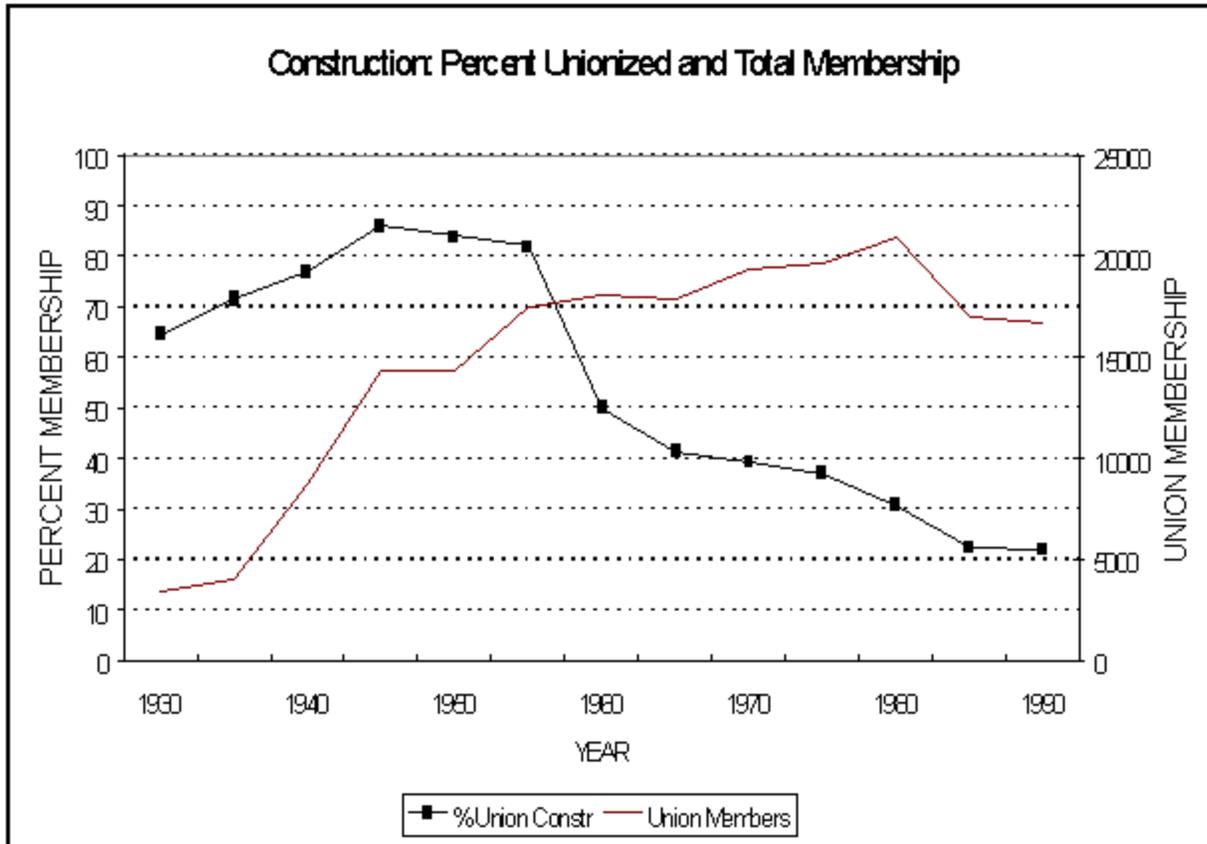


Figure 1: Union Members and Percentage of Union Construction Trends
 Source: Department of Industrial Relations 2016

Methodology

The methodology used for this paper was both a qualitative and quantitative analysis approach. Professionals from Western Specialty Contractors were interviewed and used as a resource to aid in the qualitative data collection. For the quantitative data, Western has provided statistics on past projects that were carefully analyzed in order to improve their success in the San Diego market. The data provided was used as a reference in this paper to obtain the correct methodology that Western used to help them succeed in the San Diego market. To further enhance the quantitative data, Western has also provided data that included some of the past failures to give further insight on what not to do when trying to get into a new market. Other quantitative data was collected through web research.

My objective for this case study is to...

- Provide contractors some insight to the San Diego market
- Provide information on successful approaches to gain market share in San Diego
- Provide information on failed attempts to gain market share in San Diego
- Analyze the methodology that works best to get into the San Diego market
- Inspire other contractors to try a new market

Case Study

Western Specialty Contractors, herein called 'Western,' is a privately held union specialty contractor that emphasizes quality work in restoration. It performs concrete, masonry, roofing, waterproofing, and framing restoration. Western has office locations in Los Angeles and a small satellite office in San Diego. The Los Angeles branch opened in 1993 and the San Diego satellite office opened in 2008. Western has been competing against non-union companies in Los Angeles for many years now, and it has always been a challenge. In 2003, Western was awarded a contract in San Diego. Aaron Toney, Branch Manager at that time, managed the project. San Diego was a location Western has never performed work in. It was a successful project and it created an incentive for Western to try and delve into the San Diego market. After creating a feasibility plan in San Diego, Western ran into some issues. As mentioned before, unionization has been on the decline. This posed a problem to Western because Western is a union contractor and price differences between non-union and union work could sway the decision of the owner.

With that said, Western has still been able to compete in San Diego and work with large clients like the Irvine Company, Brookfield, and ABM. Western's executives and managers at the Los Angeles branch analyzed market data and broke down Western's successful methodology into four categories:

1. Hiring Great Salesmen and Saleswomen
2. Developing relationships
3. Providing Safe and Quality Work
4. Finding Market Opportunity

Results and Discussion

Hiring Great Salesmen and Saleswomen

One of the biggest strengths at Western is its employees; it has invested time and money into creating a great sales team. The executives will only head hunt for great employees. Hiring staff will not settle for anything less. According to Aaron Toney, Western's Regional Manager, Western has three qualities it looks for in great employees: great first impressions, great soft skills, and a passion for construction. Western believes the best salesmen and saleswomen have the first two qualities and (to align with the goals with the company) the last quality specifically ties to construction.

A great salesman or saleswoman can help the company diversify into new markets, new products, and increase profit margins. Aaron Toney says the biggest mistake is hiring a good employee rather than a great one. With a bad employee, you can fire them. With a great employee, they will improve the company. However, with a good employee they are not bad enough to fire, yet they do not provide enough value to get the company to the next step. Western's goal to hire the best employees translates into their quality and aligns their goals of not settling for anything but the best.

Developing Relationships

Relationships add value, the tools and techniques being as good as the hands they are in. Relationships are seen as means to improve project performance and client satisfaction, achieved through relationships between people, between people and firms, and between firms as project actors that can be actively managed socially (Smyth and Pryke 2008). Western trains employees to learn all aspects of the construction business. There are no project engineers, estimators, or field engineers. Entry level is a project manager who is required to market, sell, manage, close, and bill. Then repeat. According to Kris Houger, Los Angeles Branch Manager, one of the greatest benefits Western provides to the owner is a one-person contact. If the owner has any questions or concerns, he/she just calls up the project manager. No one else. The simplicity of this has been a huge success with developing relationships

with the owner. Kris also points out that the project manager sees the project from beginning to end just as the owner does. So, the owner starts to build a trust and dependency with the project manager which can lead to more work in the future. This type of relationship between owner and contractor has led to new and repeat work in San Diego.

According to Kris, the reason Western was able to get its first job in San Diego was because of a good relationship with a developer that did work in both Los Angeles and San Diego. In 2004, Western performed work for PM Realty Property Management in Los Angeles; and because Western did such a great job with communication and quality, the Los Angeles branch for PM Realty recommended Western to do work for its San Diego branch. Word spread to other contractors and developers in the area, and Western continued to perform small work in San Diego. It was not until 2007 that Western hit a breakthrough. Western was awarded a contract to waterproof and coat all the planters and decks for three different properties for The Irvine Company. Kris, before he was branch manager, was the project manager for this job. He said he received phone calls late at night but still answered them because he was the only person appointed to answer questions. He knew that developing a good relationship with the Irvine Company would open new opportunities in the future.

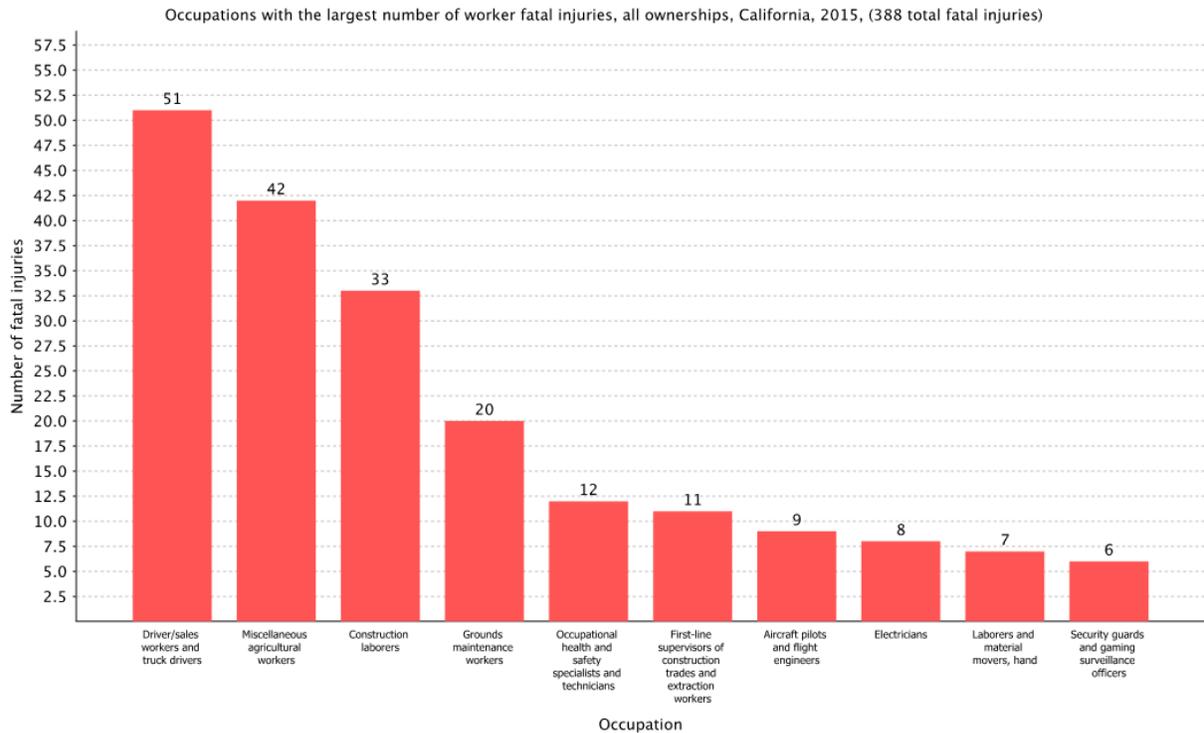
Providing Safe and Quality Work

Western is a nationally recognized top 20 masonry contractor, not because of its competitive pricing but because of the quality of work (ENR 2013). Guillermo Villegas, a Senior Project Manager at Western, has been doing masonry restoration for over a decade. He noticed some of his clients were impressed with the high level of quality work which resulted in sales to those same clients in the future. In Guillermo's interview, he stated he is a firm believer in quality over quantity. He would rather take the time to manage one project correctly with great quality than to manage multiple jobs and provide mediocre quality.

Guillermo also stated Western has great quality because of its rigorous safety program. Quality work is only obtained if done safely. Safety is a huge concern especially for construction laborers because it is the third most deadly job in the United States (See Figure 2). Foreman, journeyman, and apprentices go through safety training at the local union and then go through more safety training at Western. Every week, Western holds a foreman meeting that discusses onsite problems and any safety issues. The superintendent and project manager trades off every week to do an onsite safety inspection. Western's regional safety director does random quarterly safety inspections and quarterly safety training to keep safety protocol fresh in the foreman's heads. Western's constant safety trainings and evaluations have helped it get an OSHA Total Recordable Rate of 1.95 in 2016. The average OSHA Total Recordable Rate for the specialty contracting industry is about a 3.80 (OSHA 2015). Western beat the average by almost 2 points.

Another example of quality comes from The Irvine Company; it has asked Western to perform restoration multiple times without even considering another contractor. That is one of the benefits of working in the private sector, Kris points out, because once you build a great reputation somewhere, word will spread like wildfire. Western now gets about 80% of its jobs from repeat clients, most of whom are developers, property managers, and general contractors. This has fueled a consistent workload because most of these clients work with multiple properties. Kris advises new union specialty contractors trying to break into the San Diego market to focus on quality. Inexpensive bid prices can help but it's the quality and safe building practices that can help differentiate a union company from a non-union company.

Figure 2: 2016 Department of Labor Fatal Injuries Report



[SOURCE : U.S. Bureau of Labor Statistics, U.S. Department of Labor, 2016]

Source: Department of Labor 2016

Finding Market Opportunity

It can be a challenge to try and *time* the market. However, it is possible to *find* a market opportunity. Back in 2003, Aaron Toney researched if bidding on a project in San Diego was feasible. He found that San Diego needed contractors who performed restoration work for difficult projects. Restoring historical buildings requires careful and quality work. Aaron said there were too many contractors focused on the “low-hanging fruit” (jobs that are simple from an industry expert’s point of view), so he decided to bid on multiple historical projects in San Diego. Since Western was a union contractor focused on quality and safety, the first clients were happy with the results.

Because of market changes, Western has had to adapt to new market needs. Currently, Kris and Aaron are focusing on waterproofing and concrete repair in San Diego because of the recent drought. Buildings that were built in the last 5 years have started to see deck foundations starting to crack. Dry compacted soil can expand due to rain and foundations can crack due to a sudden increase in stress (Rogers and Olshansky 1993). Also, the recent drought has dried out a lot of joint and window sealants, so big buildings such as banks and hotels have been a successful target for the past 2 years.

Steven Fuhrman, a superintendent for Western, has worked for Western for the past 17 years. From his observations, he noticed Western has been more reactive than proactive. Meaning, Western has adapted to market change rather than predicting it. Steve advises new specialty contractors to conduct a feasibility study in San Diego and try to find solutions for the market. San Diego is a niche market but there are plenty of opportunities.

Conclusion and Further Research

In summary, Western has been a success in the San Diego market as a union specialty contractor. Western has used the methodology to hire excellent employees, create rapport with its clients, execute high quality work, and study market opportunities to gain market share in San Diego. Western's executives all agree the biggest differentiating factor between Western and other companies is the quality. Western's executives advise new union specialty contractors to invest time and money in its quality of work rather than trying to be competitive with its bid price.

Further research can include a case study from another union specialty contractor's point of view. Hopefully a different perspective from another company could give further insight to union contractors trying to break into the San Diego market. Perhaps further research can include a union contractor that has successfully performed new construction in San Diego rather than restoration; since this paper mostly gives a perspective from a union contractor that performs restoration work. This will provide a much more accurate and well-rounded understanding of competition between non-union and union contractors.

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