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Final Report

**General Business Consulting with Urban Construction, Inc.
(Now named Urban Builders, Inc.), Omaha, Nebraska**

Dates of Conference Visit: April 23 and 24, 1974

**For: Lawrence Leiter & Company
114 West Tenth Street
Kansas City, Missouri 64105**

Attention: Mr. David R. Bywaters, CMC

By: Ralph J. Stephenson, P. E. , Consulting Engineer

Introductory Note

This is the final report under a commission for Lawrence Leiter & Company of Kansas City, Missouri and through them the Small Business Administration Office in Omaha, Nebraska for administrative and technical management guidance of Urban Construction, Inc. (now Urban Builders, Inc.) in Omaha, Nebraska.

The report is being sent directly to Mr. David R. Bywaters, CMC, of Lawrence Leiter with two copies to Mr. Gerald J. Kleber, U. S. Small Business Administration, 215 North 17th Street, Omaha, Nebraska 68102.

It is expected that report distribution to Urban Builders will be by Mr. Bywaters and Mr. Kleber as deemed necessary.

The material outlined below was covered verbally with Mr. Sanford McConnell, President of Urban Builders, Mr. Richard Slezak, Comptroller and Mr. John Bowles, Estimator and Expediter on the April 23, 24, 1974 trip.

Changes to Company since Initial Trip on January 10 and 11, 1974

Following my analysis trip on January 10 and 11, 1974 several revisions to the company and their operations have occurred. Some of the more pertinent of these are:

1. The company name has been changed from Urban Construction, Inc. to Urban Builders, Inc. All reasons for this are not known, but it may have been to help restart an operation that had encountered financial, organizational and commitment problems as Urban Construction. The stationery is being changed, new calling cards have been printed, a revised business plan and financial budget in the name of Urban Builders has been partially prepared, and Mr. McConnell and Mr. Slesak are actively looking for space at a different location.

2. Two new employees have joined the staff. The first is a new secretary-receptionist who continues the same duties as the previous secretary-receptionist. Second is a new man, Mr. John Bowles, who has joined Urban Builders as an estimator-expediter and at times, salesman.

3. Mr. McConnell and Mr. Slesak have prepared a set of business objectives for Urban Builders which is the beginning of a business model. This set of objectives probably will be published to those interested in working with or retaining Urban Builders.

4. Mr. McConnell and Mr. Slesak have partially prepared a business plan and financial budget which essentially assumes Urban Builders, Inc. is starting from scratch and anticipates an income from contracts and capital from loans starting from a cash-on-hand of zero dollars beginning in April 1974.

Although this plan is somewhat optimistic, it does, in any event, represent a studied first effort by Mr. McConnell and Mr. Slesak to do a professional workman-like job of projecting income and expenses to determine cash needs and sales requirements for a one year period.

5. Business relations with Overland Wolf, a firm of developers and constructors with whom Mr. McConnell had planned to joint venture several projects, have been generally terminated. The reason for this was difficulty in agreeing upon business advantages that might result from a joint venture.

6. **Business relations with Mr. Bud Adams of Midwestern Construction have been brought to an end because of a technical disagreement on estimating and pricing policies. At present Mr. Adams is a competitor of Urban Builders in small specialty contract work.**

7. **Mr. Bowles has brought a small construction sales potential to Urban in the custom swimming pool business. It is Mr. McConnell's intent to utilize Mr. Bowles' knowledge of the field to try obtaining custom pool work. Presently the firm is encountering some stiff dollar competition from other organizations in this work, particularly from Mr. Adams at Midwestern.**

8. **Mr. McConnell, in my opinion, has tempered his immediate construction desires relative to project size and now is more desirous of obtaining small construction work that can be accomplished directly by his firm with or without brokered operations. Construction crews will be assembled by adding tradesmen and supervisors to the payroll either temporarily or permanently.**

9. **In Mr. Bowles, Urban Builders has added a man who has limited but apparently good experience in and knowledge of small construction. This will be a distinct help in working with other technical organizations, as well as in assembling estimates, preparing proposals, expediting field operations and carrying out both time and material, and fixed cost specialty contract work.**

10. **Mr. McConnell has attended a seminar on market analysis and bidding strategy that apparently generated considerable thinking by him about his own business operation. From my observations, it appears this stimulation was a positive influence and should bring about a more realistic understanding of what the small general and specialty contractor must do to build a successful construction business.**

11. **Mr. McConnell displayed a better grasp than previously of the deficiencies inherent in a joint venture with another general contractor. The problem with joint venturing is that unless there is a gain by all parties to the venture then the venture is less than desirable. Where two firms do the same kind of work and there is no benefit for both organizations, it becomes less than meaningful. Thus, if Mr. McConnell is looking for bonding and financial strength by joining with firm X in a project that firm X could very well do by themselves, Urban would scarcely gain from the relation unless there was a commitment or donation from firm X. Such commitments and donations are often given by large, profitable contractors. However, Urban may not have the characteristics that would attract such commitment and donations from firm X.**

12. In my conversation with the staff of Urban, it appears that they are all, but most particularly Mr. Bowles and Mr. Slenak, acutely aware of the need to grapple immediately with the problem of acquiring work. I have encouraged the entire Urban staff to concentrate on generating a now-work attitude. The change since my last visit is that the urgency is more strongly felt and better understood by people in the organization. Hopefully, the pressure of this feeling will be transmitted to all concerned. Developing a backlog (work currently in the field and being billed) is absolutely critical to Urban's survival no matter what kind of loan or financial backing they negotiate.

Discussion of Tuesday A. M., April 23, 1974

Probably the easiest way to convey the thoughts and recommendations resulting from my two-day conference with Urban is by reviewing the morning and afternoon activities of each day. Therefore, I shall convey my impressions in narrative form highlighting important points.

On Tuesday morning, April 23, 1974 I met with Mr. McConnell at 8:30 A. M. He introduced me to his new estimator-expediter, Mr. John Bowles, and we had some general conversation. Then Mr. McConnell asked me to accompany him on a visit to Dugdale Construction, a heavy construction firm probably doing from \$8 to \$12 million per year in road building and other major heavy work. This organization has a 24-man payroll staff and in the construction season probably hires an additional 200 tradesmen and working force. We met with Mr. Phillip C. Cane who is a responsible executive in the firm, in charge of subcontracting to minority organizations. Mr. Cane was very helpful, and our discussion basically revolved around two elements:

- 1 - How Dugdale could participate in projects that Urban is presently attempting to negotiate.
- 2 - How Urban could perform subcontract services for Dugdale.

In respect to the first of these, Mr. McConnell asked Mr. Cane if they would be interested in proposing on a job to build a new liquified natural gas (LNG) plant for the M. U. D. in Omaha. Mr. Cane had not heard of this project and listened to the description by Mr. McConnell. Apparently there is some interest on the part of Dugdale and on Wednesday Mr. McConnell delivered plans for Dugdale to review and provide a subcontract price.

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In this matter I think Mr. McConnell accomplished something that certainly should be a continuing part of his marketing operation, by offering the mutual assistance of a general to a sub, which might, in turn, result in a job for the general from the sub.

The kind of construction done by Dugdale is heavy roadwork and in relation to point two above, Mr. Cane said there may frequently be five to twenty inlet structures to be built on a given highway project. Where possible, these are subcontracted out to minority firms. Thus, the minority firm gains financial and bonding shelter by working with the larger company, and at the same time is able to accomplish a profitable job well within their potential without excessive financial exposure. Such opportunities often exist from larger contracting organizations and I urged Mr. McConnell to continually be on the lookout for specialty subcontract functions that Urban can perform for other prime contractors. Efforts to get this kind of work should be ongoing and every major general contractor in Omaha should be notified of Urban's desire to do specialty work.

As a part of soliciting specialty construction business a moderate to high degree of technical ability must be exhibited. In my opinion, presently the only full time staff member qualified to discuss the technical aspects of such work in Urban is Mr. Bowles. It requires a reasonably good construction background plus a knowledge of the theoretical processes involved to carry on a conversation with contracting organizations when trying to work with them. Therefore, in this sense, Mr. McConnell and Mr. Slezak could well make the initial contacts and allow followup on specific technical situations to rest with Mr. Bowles. The danger here is that a company may by solicitation encounter too many projects upon which they commit to prepare estimates and proposals. To avoid excessive estimating and proposing, Urban should develop a method of carefully selecting those jobs upon which they are going to propose and rigidly exclude working on proposals for jobs that have only a slim chance of being successfully obtained (profiling work).

For instance, over the summer if Urban should decide that they could concentrate a serious sales effort on concrete flat work, basically sidewalks, driveways, parking lots and floor slabs on grade, then every effort should be bent toward identifying the size, nature, location and client type with which Urban could be most successful. For instance, an analysis might proceed as follows:

* * * *

**Profile for Proposing on Concrete Sidewalks and Floor Slabs on Grade,
Driveways and Parking Lots (Example Only)**

Geographic Considerations

Projects to be considered should be within a 20 mile radius of Urban Builders' office. All projects outside this 20 mile radius that meet other profile requirements will be evaluated separately, but will generally be given a lower priority.

Size Considerations

Projects ranging in estimated cost from \$100 to \$20,000 will be considered proposable. Opportunities for proposing on a combined project where the flat work is within this cost range but the total job cost is higher will be considered separately upon its own merits.

Maximum Size of Labor Force

Urban will attempt to build a labor force to meet all demands of projects upon which they have proposed successfully. However, if possible, they will limit their total force to the following:

2 field superintendents

5 foremen

12 cement finishers

8 laborers

7 carpenters

5 resteel workers

Method of Proposing

Wherever possible, work will be proposed upon according to the following method :

Best - Negotiated on time and material with fixed
fee and no upset price

- Second best - Negotiated on a square foot cost basis with no upset price.
- Third best - Negotiated on a time and material basis with an upset price given. Savings under the upset price to be divided 80% to the owner and 20% to Urban.
- Fourth best - A fixed total cost based upon clearly defined conditions.

Marketing Procedure

Small ads will be placed in each Omaha and suburban newspaper for a one week period, and subsequently throughout the summer if results justify the expenditure.

A letter will also be sent to all general contractors, heavy construction contractors, mechanical contractors, architects and engineers telling them that Urban Builders is in business to do flat work for them, and soliciting their inquiries.

The third marketing effort will come from personal calls by the entire staff of Urban. Mr. McConnell and Mr. Bowles will make at least four personal contacts per day in this respect. Mr. Slezak will make at least two contacts per day. The secretary-receptionist will contact at least six organizations per day by phone to determine basic interests and find organizations where a personal followup by Mr. McConnell, Mr. Bowles or Mr. Slezak would be appropriate.

(Note from RJS)

The above structuring is strictly an example, although the methodology and some of the content certainly would be wise to review carefully for possible use. Additional points that should be considered are methods of writing contracts, sequence of payments, closing out work, followup, and projected equipment use.

* * * *

I recommend that Mr. McConnell and his staff prepare such a document as outlined above for each of the major specialty sub-trades they are thinking of becoming involved with over the next year.

Following our visit with Mr. Cane, we went to the UCAN headquarters to visit with Mr. Al Epps, executive director of UCAN. UCAN is an affiliate of MOKAN, a minority contractor association. At UCAN we found Mr. Epps and Mr. Virgil Chandler were involved in a conversation on bonding with Mr. Carson of U. S. Fidelity and Guarantee. We reviewed the bonding problem for the minority contractor at some length.

This matter is a very real difficulty, particularly since some minority contractors are totally dependent upon bondable governmental work. There were no good, hard results from our discussion, but it did appear that an awareness of the need for close ties between financing institutions and bonding organizations was better understood and perhaps emerged as an avenue through which sounder bonding practice could accrue the minority contractor.

I suggested also that the agencies that require bonds be approached to determine where a bond was truly necessary, and where it was merely a matter of legal requirement having no actual need in fact.

(Note to SBA)

(The problem of bonding for the minority contractor is one that appears to be troublesome and difficult all over the country. The difficulty is that the competent, weakly financed company oftentimes cannot negotiate a bonding limit adequate for their job volume. It might be that working with minority organizations some funded or pooled financial strength can be assembled that would allow the better minority contractors who have been qualified by work performance and past record to gain a better financial position. SBA might well concentrate some of their attention on evaluating this joint approach to assist the minority contractor to gain a better financial and bonding position.

Also, an evaluation of bond requirements should be made. Are they really necessary?)

While we were discussing this matter at UCAN another visitor, Mr. Terry Shane from Kansas City, joined the group and we continued the bonding discussion for a short time more. This additional dialogue was helpful in that it brought into focus construction business problems as compared to minority construction business problems. It must be understood there

are problems that have troubled the construction industry for a long time and are not now merely selectively plaguing the minority construction businessman. One of these is withheld amounts. The practice of holding 10% of a contract from the beginning to the end is a debilitating procedure that does nothing but force the contractor to front load (overbill at the start of the job) his request for payment. Basically any contractor when forced to forego access to 10% of the billed amounts of a contract throughout the life of a project has to work on borrowed money upon which he must pay a high interest rate, or he must front load. If he didn't front load it would be financially disastrous and make it impossible for him to exist. I suggest that SBA investigate some payment reforms, perhaps going to the extent of paying each request in full, but withholding the last 5% of completion money. There is sufficient leverage generated for the owner and architect-engineer by having authority to approve or reject the contractor's requests for payment. Additional leverage throughout the life of a project by withholding money has proven counter-productive and usually does not insure better performance.

As a final comment on this matter of withheld amounts, I suggest that Urban seriously consider writing all proposals and contracts revising the withheld amount concept from its present 10% of a request for payment total to some other arrangement where full use of the funds properly accruing the organization can be had through the project life. This would assist greatly in insuring prompt and adequate payment to subcontractors particularly those who are working in the minority areas.

Closing our discussion at UCAN, it appears there might be some definite potential in an association pooling of money, material, yard space, office space, manpower, estimating talent and management talent.

The remainder of Tuesday A. M. was spend discussing various topics with Mr. McConnell. Some of these included:

1. Joint venturing with a majority contractor is difficult for a minority contractor because most joint ventures are composed of contractors who have the same capabilities. This matter was touched upon briefly above.
2. Mr. McConnell feels that joint venturing could possibly be very meaningful if it were with an electrical or mechanical firm which does not have a parallel purpose in the joint venturing but expects to gain strength in the general contract area. This has some possibilities, particularly for a man with Mr. McConnell's business talents.

3. Urban is seriously considering offering a project management service by which they locate, identify, assist to finance, oversee design and construction and put into operation, projects of varying sizes. This is a field for which Mr. McConnell feels he has considerable talent. He has in fact attempted to do that in many of his past projects. The major pitfall with the small under-financed organization in attempting this kind of work is that development of a program takes so long and requires such heavy early financing so far ahead of the actual receipt of income that it becomes financially infeasible for the smaller organization. However, when the organization charges a fee for their involvement, then it is possible to turn this offering into a profitable business venture.

If Urban Builders were to consider involvement as a service organization, they should do it through an organization with a name other than Builders attached to it. For instance, it could be called Urban Development or Urban Advisers. The reason is that normally it is not possible to non competitively engage a contractor on public work as a professional adviser.

To do this kind of work Mr. McConnell will have to ultimately add to his staff some registered technical people primarily in architecture, engineering and planning. This kind of resource is critical to the success of a program of consulting, and can be either in-house or on a consulting basis.

Also, Mr. McConnell will have to develop some additional depth in real estate and financing. Here, instead of in-house capabilities, the competence can be generated from outside organizations.

The concept has merit but must be approached carefully since each project is a separate kind of job and usually does not develop into repetitive patterns.

I want to again caution that involvement in this kind of work normally does not produce construction activity for many months and sometimes many years after the development program is initiated. Therefore, lead times up to a point where construction money flows into the organization are far too long to attempt with either interim financing or no financing. This is not a good field to start in from scratch.

4. It was generally conceded by Mr. McConnell that ongoing training and education of his organization is absolutely essential; that coaching of the company by those who are knowledgeable is needed; and that the most critical element in his business success over the immediate future is obtaining and putting into effect an aggressive marketing and technical know-how that generates new-income. In this I concur.

Upon returning to the Urban office, I discussed estimating procedures briefly with Mr. Bowles and Mr. McConnell. We reviewed some of the estimates that had been prepared on past jobs and looked over an estimate currently being prepared by Mr. Bowles on the liquified natural gas project.

As a result of this and other discussions held over the two day period regarding estimating, the following points should be emphasized:

1. Proper estimating requires historical data. Presently Urban has little, if any, historical data on how long or how much any of their field operations have taken or cost. I recommended to Mr. Bowles that he be as accurate as possible in his quantity surveying and then to make use of whatever resources are available to him to apply unit costs to the work. Mr. McConnell has, since our last conference, acquired several good estimating reference books, and Mr. Bowles brings to the organization a working knowledge of small construction unit costs particularly in form work and concrete. Also, Urban Builders enjoy a relatively good rapport with several small subcontractors from whom they should be able to obtain fairly accurate unit costs as well as time allowances for work on trades such as carpentry, concrete placement, form work, heating and other sub-trades. This information should be helpful in starting a good cost accounting system.
2. From the beginning all estimated projects should make use of the sixteen code Construction Institute Standard Classification System. Mr. McConnell has this book of codes and I reviewed it with Mr. Bowles. I have suggested to Mr. Slezak that he also become acquainted with the coding system so that from the beginning the estimating and cost control system of Urban Builders is tied into the sixteen code system.

3. **Mr. Bowles is making extensive use of standard construction forms obtained by Mr. McConnell as a result of our last conference. This is to be encouraged. I also confirmed Mr. Bowles' feeling that he should accompany his tabulation sheets with technical backup sheets giving full details on how the work is estimated. These backup sheets should be referenced carefully to the estimate sheets so all backup information can be found easily and quickly.**

4. **I recommend that Urban Builders assign a prospect number to each estimate that is prepared and a project number to each prospect that is obtained as a job. For instance, prospects could be numbered consecutively as they are brought in to be estimated or negotiated and prefixed with the last two digits of the year. The 20th prospect on which work is done in the office in a given year, let us say 1974, would be entitled P74:20. Each job that is obtained could either be numbered consecutively from the beginning of the year without the prefix P or could merely be given a suffix such as J for Job, which would mean that if a prospect number 20 turned into a job, its job number would be P74:20J. An advantage of relating the job number to the prospect number is that the entire work folder could be carried through on the same number. I suggest that Mr. Slesak, Mr. Bowles and Mr. McConnell work out a mutually acceptable system so that time spent on each estimate or each prospect can be identified, so the cost control system can be related to specific job numbers.**

5. **We reviewed the selection of projects upon which to propose, and I again urged the staff to be very selective about prospects they work on.**

In most companies it costs anywhere between \$50 and \$1,000 to prepare an estimate for a job. This is expensive time and if you are getting one job out of ten, the company is paying a large penalty for figuring those jobs that have low probability of becoming projects.

The technique of defining the market place I outlined earlier will help greatly in profiling the jobs that are accepted for estimating. Only high probability jobs should be brought into the estimating stream.

In addition those jobs that have low present probability but high future probability should be worked upon at the time point where the effort expended is most effective. Thus, if somebody wants a budget price for a small commercial building, it is a waste of time going into great detail in the estimate. Instead, square foot or cubic foot costs from various estimating sources are usually adequate.

On Tuesday afternoon, April 23, Mr. McConnell and I had lunch with Mr. Norman Korney, a real estate representative for E & P Dodge Company, realtors. Mr. McConnell explained that Mr. Korney is a longstanding business friend of his and that the two get together for lunch quite often. We had a pleasant business conversation and then after lunch picked up two representatives of a large Omaha architectural firm. This organization is one that Mr. McConnell has had some informal association with on past projects. We drove downtown where we inspected a very large farm implement warehouse that had recently been deactivated.

Apparently there is strong interest by an out-of-town developer in providing several hundred apartment units by remodeling the warehouse. This developer has had considerable success in converting existing buildings to other uses. It was felt by Mr. McConnell that with the architect's help and the assistance of Mr. Korney that quite possibly this deactivated warehouse could be converted. It is not within the scope of this report to present any evaluation of the project, nor of the physical facility. However, I accompanied the group in part to listen to the conversation and assist, where possible, in the discussions. Mr. McConnell asked if before I left I would present some of the advantages and disadvantages of this kind of work but unfortunately time did not permit a detailed evaluation discussion.

I would like to again express the view that Urban Builders be encouraged to concentrate on projects that have immediate potential so as to generate a present business backlog. Although this apartment project is fascinating and may be potentially profitable, it will require an enormous amount of lead time before actual construction could ever begin. Property must be acquired, physical surveys made of the existing facilities, architectural and engineering schematics prepared for financing purposes, estimates obtained to establish detailed cash flow, final working drawings and specifications prepared and construction contracts negotiated. On a project of this type it might take as much as one to four years before such a job could be put into the field for actual construction. Although

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it is desirable for Mr. McConnell to gain knowledge of these projects, it is not presently, in my opinion, the most profitable use of his time for achieving immediate business. The positive factors involved in this type of activity, however, must not be overlooked. Mr. McConnell is gaining valuable business contacts, he is in a sense being trained and educated to the processes for assembling such large projects, and he is gaining exposure for his company by actively working with the various governmental and private agencies that are involved in such work. The major question is whether or not the trade-off in present time is valuable to the company.

Upon returning to the office we spent two or three hours in conference with the entire staff - Mr. McConnell, Mr. Slesak and Mr. Bowles - going over the activities of the day, reviewing my first report from the previous trip and discussing various elements of the construction business as they pertain to Urban Builders. Some of the points covered in the discussion are given below:

1. Mr. McConnell is very interested in obtaining construction contracts on highly repetitive projects such as bank buildings, chain restaurants and other such structures. He had been led to believe that he would be in a more favorable position to obtain such work if he was a dealer for a metal building product line. There are a large number of metal building franchises on the market and after a preliminary investigation Mr. McConnell has contacted the Atlantic Building Company for information about becoming a dealer.

In evaluating the worth of a metal building franchise, I pointed out to Mr. McConnell and his staff that they as an organization must be prepared to engage in rather extensive marketing activities and to develop technical capacity in the company that presently does not exist if they are to sell pre-engineered metal buildings.

In constructing metal buildings one of the most important areas after selling a job is to correctly order out and then to properly erect the structure. Both of these require in-house abilities that must be generated over a period of time. It is not necessarily as desirable a procedure in metal building work as it may be in conventional work to subcontract out the major share of the structural work. Most successful metal building contractors maintain small but efficient structural steel erecting crews that receive, shakeout and put in place the red iron, roofing panels and siding. Thus, in a metal building business, particularly on smaller structures widely spread geographically, Mr. McConnell

would probably have to develop his own iron worker crews, train them and supervise them with in-house management to be effective and profitable.

Marketing the metal building structure is also very complex since generally the metal building manufacturer today has a proven record of success over the last four years and has become more and more demanding relative to his market representation. Most good metal building manufacturers require that their outlets make aggressive, continuous efforts to sell their metal building to the contractor's clients. Then too, more and more we find that the metal building contractor is going into the design/build operation and quite often adding real estate and financing abilities to the design and construction services offered. Thus, I suggested to Mr. McConnell that he thoroughly investigate his ability to commit in these additional areas before he takes on a franchise.

Mr. McConnell pointed out that there is a possibility of his obtaining as many as 60 metal buildings in the state of Nebraska over the next twelve months. This size of potential volume must not be neglected but again the tradeoff in time and commitment must be evaluated against other kinds of activities. If Mr. McConnell accepts a franchise, it will probably be necessary for him and his staff to spend one to three weeks in training to properly represent the metal building manufacturer. This is a sizable commitment of time and money and should be certainly a factor in the evaluation.

2. We again reviewed the important features of an effective estimating and cost control system. I re-emphasized strongly the points that have already been outlined above. These include:

- a) Need for good cost history data
- b) Desirability of carefully profiling jobs to be proposed upon that are within the range of capabilities of Urban Builders
- c) Close control on the expediting and buying operations
- d) Close control on the construction and turnover operation
- e) Development of a responsive and accurate cost accounting system

- f) Development of a field planning tool, preferably critical path method (CPM) that will give all members of the Urban Builder staff an insight into the actual construction process as it is planned on projects in the field**
- g) Development of good subcontractor relations for assistance in pricing projects.**

3. With the full staff we reviewed Mr. McConnell's concept of providing small specialty trade services such as concrete flat work, rough and finish carpentry, plastering, lathing and painting. All of the men felt this was a desirable and somewhat exciting road to developing some immediate current work load. It was agreed that there would be a concerted effort in this direction immediately.

4. We reviewed the concept of construction management as it applies to the construction industry. This was tied into the earlier discussion when Mr. McConnell expressed a desire to become involved in offering project management services on all types of programs.

A review of the construction management concept is appropriate here:

In the broad sense, construction management is merely a different name for a type of service that has been offered and used successfully in our modern construction business world since the late 1800's. It first evolved as a design/build concept and remained pretty much on that basis until the early 1930's. At that time some design/build firms began to offer real estate, financing and leasing services. In the provision of these, the coordination and control was all within one firm. At the same time this concept was emerging, the splintered concept, in which an owner retains an architect/engineer to design the building and then lets a competitively bid contract to a general contractor and a group of subcontractors was also seeing wide acceptance.

As the abilities of contracting organizations expanded and grew, and as the problem of liability definition grew more acute, there emerged a concept that a single objective, professional adviser might best be given the job of coordinating all of the work including design and construction along with whatever financing and real estate services would be needed. The construction adviser or manager in the strictest

sense of the word today, is a person retained by the owner directly and very early in the conceptual process to initiate, control, coordinate and manage all of the services and resources needed to bring a construction program to successful completion.

Construction management requires a relatively high level of technical knowledge and business ability. It also demands a fairly well rounded staff and a high degree of proficiency in the design and construction business. I told the Urban Builder staff that at present they might be able to engage in very small project construction management. However, it will require a great deal more experience and technical ability than is presently available on the Urban staff to truly engage in a profitable construction management practice.

5. We were able to talk briefly about the warehouse remodeling mentioned above and some of the elements pertinent to remodeling were discussed. One of the most important dealt with the susceptibility of the warehouse structure to remodeling. The warehouse we inspected in the afternoon is a reinforced concrete building of flat slab construction. Such a building is extremely difficult to remodel especially if there is much cutting and patching as there could be in remodeling to apartment use. Also, floor heights in the warehouse are much higher than is conventionally found in residential apartment buildings. Another problem that must be solved in laying out the apartments is availability of outside walls. The warehouse is several hundred thousand square feet in size on several stories. In order to obtain exterior wall exposure for apartments, it might be necessary to construct atrium openings in the floors from grade through the roof. This could prove expensive and technically difficult.

During our discussion we covered enough points of this nature so that Mr. McConnell and his staff were alerted to the areas that they should investigate in more depth before engaging in the project.

6. We discussed the business model very briefly but since Mr. McConnell has already started preparing his objectives, I feel it would be better to let him proceed to define his long range, medium range and short range goals and then to generate the full business model from these. This matter should not be dropped nor shoved aside. It merely seems more appropriate at the present time to allow the management of Urban to concentrate on getting an immediate work load based upon objectives they have already defined.

7. We talked at length about profiling job prospects and I reviewed the kinds of jobs that might be best for the firm to concentrate upon. It appears that with Mr. McConnell's business

abilities it would be best for the firm to gradually move away from competitively price bid projects. This market is extremely difficult to work in if one does not have a highly effective field management force. In addition competitively bidding many, many projects continually over the months is often not productive and can ultimately lead to severe financial difficulties. This is not to say that Mr. McConnell's firm should not bid on competitive projects. Competitive bidding keeps the estimating staff and construction group aware of the market place. It makes them known to prospects and clients, and it serves to keep them in touch with other contractors, subcontractors and vendors. There are many firms that are very successful at competitive price bidding. However, I believe that Urban Builders' main talents lie along the line of being competitive in other things besides just capital cost. Thus, it may be best for Urban to concentrate over the long haul on becoming the kind of super service organization that Mr. McConnell has started to visualize and has been described briefly above.

8. Relative to estimating jobs, the question was brought up as to how indeterminate elements of a job could be properly integrated into the estimate and proposal. I suggested that where such items were encountered that they either be eliminated from the proposal and the proposal qualified or if there is limited information available estimates be given as an allowance cost. For example, if Urban was proposing on a project to construct twenty new single family residences on a site previously occupied by deteriorated housing and if this former housing had hidden basements that would not be visible until after work started, it might be necessary to make some provision for removing this hidden concrete and masonry work in the original proposal. One way of handling the problem would be to eliminate removal of the basements from the firm proposal and qualify the contract.

Another method would be to actually provide a per cubic foot unit cost for concrete and masonry removal. Thus, the only thing required once the work started would be to determine with some accuracy the total volume of hidden masonry and concrete in the project. This is probably the most common of the methods.

A third method would be to establish a maximum allowance by saying that to the best of current knowledge and from present indications, the cost would be about X dollars and then to have the owner insert in the contract an allowance of this much money with provision to be made for a draw on this allowance up to its maximum for removal under previously agreed upon unit costs. Excess amounts would be negotiated.

As a general rule, it is always best to provide some basis by which the owner can make computations based upon some unit cost and some volume available with which he can commit the contractor. Thus, the second method outlined above is generally the best in the case of hidden work. Attention to the techniques of taking care of unpredictable contingencies is critical to all contractors but most especially to the small contractor engaged in large numbers of small jobs often built under unpredictable conditions.

9. We reviewed engaging in business operations on high, medium and low risk jobs. Under the present conditions that Urban is laboring, it is certainly advisable to concentrate on low risk projects, generally all within a certain price range where if there is any loss on one job it can be made up on the several others. For instance, it would not be wise to take on five \$20,000 jobs which are low risk and consequently low profit jobs while accepting at the same time a high risk project with an estimated value of \$200,000. If the high risk job goes sour, it could chew up all profit and perhaps even more from all the low risk jobs combined. This balance of job size and degree of risk must be watched carefully. In most experienced companies this is done intuitively. However, in the smaller firm with less experience, the matter of balance is often overlooked.

10. We discussed the prospects available to Urban at our last meeting in January. These have generally all fallen through although the ADR Corporation is to build some houses next fall, hopefully on property owned by Urban. This remains a very live job.

11. We discussed in depth whether or not Urban should propose on a lift station at the industrial park. From our conversation it appears that there is a lift station worth about \$119,000 available on a subcontract basis from the general contractor on the industrial park development. I suggested that Mr. Bowles review the original proposal prepared several weeks ago by Mr. McConnell and one of his then associates. This is a good size project for Urban and although it does contain some of the undefinable type elements described above, these could be covered in a method as outlined. This project was to be investigated the next day for followup.

12. We closed out the evening's discussion by reviewing the concept of direct and indirect selling. Direct selling is where you contact the client who will pay you for doing the job. Indirect selling is an approach to a party that will be influential in getting a direct

client to give you a job. Thus, for a general contractor, the architect/engineer is usually an indirect prospect, whereas an industrial firm is a direct prospect. The indirect selling effort although it has been the basis of many successful contracting businesses is very difficult to apply and must always be coupled with a balance of direct selling. Urban Builders need direct selling efforts now.

Discussion of Wednesday A. M., April 24, 1974

Originally this morning was planned as a diagramming session for the LNG plant from 7:30 - 8:45 and then for a trip to Dugdale to discuss the plant and the participation of Dugdale in its construction. However, because of some time problems we were not able to begin our network planning early enough to meet with Dugdale at 9 o'clock. Therefore, Mr. Bowles and I concentrated on preparing the critical path network diagram for the LNG project upon which he was currently proposing. We spent most of the morning on this plan of work and it proved to be very beneficial in illustrating many of the estimating and evaluative techniques we had reviewed the day before. Also, I feel it gave Mr. Bowles a thorough grounding in the application of critical path method.

About mid-morning we were fortunate enough to speak by phone to the owner's representative on the LNG plant and he expressed an interest in watching us prepare the network diagram. He joined us at Urban's office and Mr. Bowles and I, with the help of the owner's representative, prepared a comprehensive planning network of the major elements on the job. This network diagram was left with Mr. Bowles and should be of use to Urban not only on this specific project but as an example on other work they might be doing in the future.

Thursday P. M., April 24, 1974

After a very interesting lunch with Mr. Bowles and Mr. Slezak we returned to the office and wound up the two day session by reviewing the elements described previously. Most of this session consisted of open discussion, questions and answers. Most of the material covered has already been discussed above.

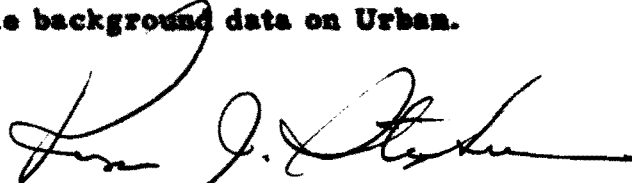
I left Urban Builders' office about 3 o'clock and met with Mr. Alexander Morrow of the SBA. We reviewed my two day conferences and I conveyed to Mr. Morrow the general content.

I strongly suggested to Mr. Morrow that he have a meeting with Mr. Slesak and Mr. Bowles of Urban Builders to get an up-to-date picture of the current technical and financial activities in the company. I believe this would be helpful in reacquainting SBA with what Urban Builders through their staff efforts are trying to accomplish.

Overall, it appears to me that the company under the leadership of Mr. McConnell, and concentrating its immediate efforts in the small specialty contracting areas could very well build a good contracting and project managing operation over a period of time. I suggest that every effort be made to build gradually and always from a position of strength. That is to say the company should use its present talents and abilities to gain experience and gradually move into more complex and more sophisticated work. The gradual movement into these areas building from the strong position, however, is to be recommended.

This completes the consulting commission to Urban Builders for Lawrence Leiter & Company and the Small Business Administration. The ideas and views expressed are not necessarily unique but in my professional opinion, represent a desirable and potentially successful approach that Urban should carefully consider. In any private enterprise operation, particularly the small business, it is the talent, drive, energy, abilities and perceptiveness of each and every member of the staff that brings success. Urban has many of the inherent characteristics that should bring achievement of their goals. It will require some adjustment of attitudes and perhaps some temporary toning down of desires. However, with the abilities and backgrounds of those presently with the company, there is little reason why it cannot be a successful construction oriented organization.

It has been a pleasure working on this project and I want to convey my appreciation and thanks to Mr. McConnell, Mr. Slesak and Mr. Bowles for their strong help and expressions of trust and confidence. In addition, I wish to thank Mr. Kleber, Mr. Morrow and Mr. Yelich of the Omaha SBA for providing much valuable background data on Urban.



Ralph J. Stephenson, P. E.

73:85

- CRITICAL PATH PLANNING
- LAND PLANNING
- MANAGEMENT CONSULTING
- PLANT LOCATION

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January 29, 1974

Interim Report

**General Business Procedures Consulting with
 Urban Construction, Inc., Omaha, Nebraska**

January 10, 11, 1974

**for Lawrence - Leiter & Company
 114 West 10th Street
 Kansas City, Missouri 64105**

Attention: Mr. David R. Bywaters, CMC

This was a multi purpose assignment initiated by a request for estimating assistance by the Urban Construction Company. The scope was broadened after a preliminary discussion with the Small Business Administration staff and with Urban's president so as to encompass an analysis of Urban Construction's total present and projected operation.

The company currently acts as a construction broker providing management and administrative services to accomplish construction within a narrow band of project types. My early discussions were primarily with Mr. Sanford McConnell, President of Urban and Mr. Rick Slezak, accountant for the firm. These men are full time employees and are assisted in their work by a full time secretary/receptionist. Other early interview discussions were held with representatives of private contracting companies with whom Urban Construction is either presently working or planning to work. These men included:

- **Mr. Richard Rahn, Vice President of ADR Industries, Inc., Adair, Iowa, a manufacturer of prefabricated residential wood components**

- **Mr. William Jordan, General Manager of Overland Wolf Construction Division, a developer - constructor, which is the landlord of Urban Construction in their new office building**

- **Mr. Bud Adams, a principal with Mr. Bernie Gliogly in the firm of Mid-Western Construction**

Each of these three has informal business relations with Urban Construction and supplements Urban's sales, managerial and administrative operations.

Mr. McConnell, President of Urban Construction, began his operations in 1968 with various efforts to successfully construct and market low and moderate income housing under federal programs. In these Urban offered construction coordination services, as well as actually doing masonry and flat work (concrete slabs on grade). They also contracted to do carpentry work both by in-house personnel and by subcontract.

Urban's early efforts in the field of housing led to a business relationship with two builders from Norfolk, Nebraska (the Cox brothers). Rising costs, federal pressures on subsidized housing and general business inexperience brought Urban Construction's early residential work to a somewhat unsuccessful and still unresolved end. It was evident, however, in our conference of January 11, 1974 that a share of Mr. McConnell's interests still lie in the field of low and moderate income housing.

By mid 1969 it was apparent to Mr. McConnell that this market and the federal subsidy programs were encountering difficulties that might prevent him from operating the way he had originally conceived. Indications were that he would have to begin doing more of the actual construction work with his own forces, as well as expanding his subcontract operations to achieve preliminary goals he had established for his firm. In involving more outside subcontractors he encountered the usual difficulties in controlling performance, administration and coordination. This led to the exploration of other avenues by which Mr. McConnell could continue his firm's activities in the general contract field. As a result, informal affiliations were formed with several companies including Overland Wolf, Mid-Western, Hawkins Construction and Barger Concrete Contractors. Mr. McConnell would provide his background as an administrator, salesman and a minority management resource to private and public (usually 8a) construction projects.

His efforts are just now beginning to bear fruit that may or may not prove successful for Urban. As an instance, Mr. Richard Rahn of ADR Industries who is presently cooperating with Urban Construction in proposing on a military housing program had a major conference on January 10, 1974 with Mr. McConnell in which I was permitted to participate as a listener. This program anticipates the fabrication, delivery and erection of 150 buildings containing 300 housing units for enlisted men and officers at the base. Each firm has agreed informally to work with the other and to generate the full capabilities of each in accomplishing this particular job.

Later I was privileged to sit in on the conference at which Mr. Jordan of Overland Wolf and Mr. McConnell discussed the joint venturing potential between Urban and Overland Wolf. Apparently Overland Wolf is presently willing to loan Urban Construction estimating, expediting and bonding assistance in projects that might adapt to joint venturing. These two organizations have done one small project to date on this basis and are searching for additional work in which they may be of mutual benefit to each other.

In the afternoon Mr. Bud Adams of Mid-Western Construction came in to review the present status of his jobs to be bid with Mr. McConnell. At this time I was able to review with each of the men their views on future joint cooperation. Mid-Western is a small general trades contractor which does its own masonry, concrete and carpentry work. They are desirous of establishing an on-going relation with Mr. McConnell and Mr. Adams is apparently satisfied Mr. McConnell can provide them the insight and to a certain extent, the managerial ability to gradually improve the nature of work and volume of their firm.

From these three conferences, it appears that Mr. McConnell has in mind the ultimate forming of relatively strong contractual affiliations that will allow Urban to manage and direct projects without having large numbers of their own personnel directly involved in the program. If this pattern is to be pursued, it will be necessary for Urban Construction to generate above average staff skills in evaluating, budgeting, selling, managing, planning, financing and closing cooperative or joint venture programs. It was quite evident from our discussion that Mr. McConnell's plans are not limited to governmentally financed and sponsored projects. There has been a noticeable, although as yet ineffective effort, to involve the company in private enterprise construction operations. This is a direction that should be continued since each of the organizations mentioned as potential affiliates of Urban appears to be reasonably competent, aggressive and desirous of working with Mr. McConnell.

Urban's evaluation technique of projects to be proposed upon is presently slipshod and depends upon factors that do not necessarily optimize success. I believe here that some advisory sales direction to Urban Construction can in the near future result in a strengthening of their ability to sell selectively in the private market place. It appears that Mr. McConnell is presently simulating several different kinds of organizations which he instinctively feels might be appropriate for achieving his business objectives. This simulation will only be able to continue for a limited period of time since the nature of the construction business does not generally encourage continuing multiple competitive relations to be built between a general contractor and other peer or subordinate organizations.

At this point in my consulting with Urban I attempted to evaluate the discussion content that might prove of most value in the limited time available. Some of the points I felt were most necessary to clarify to generate good, on-going business health are reviewed below:

- * 1) A clear statement is needed of the projected operational characteristics of Urban's business one year, two years and five years from now.
- 2) The firm presently suffers from an acute shortage of good, hard technical competence in the engineering, contracting disciplines. This matter can be remedied by acquisition of outside personnel and, to a certain extent, by updating through internal training. Both methods have their value but presently I tend to feel the press of time requires strengthening from the outside. Thus, affiliations with firms such as Mid-Western, Hawkins, ADR and Overland Wolf may prove beneficial to future operations of Urban.
- 3) A clear definition of the objectives, plans, strategy and tactics of the company should be prepared over the next two month period.
- 4) A major weakness of Urban Construction appears to be their lack of adequate knowledge of how to plan, schedule and allocate resources to jobs. This is an important element and came in for additional discussion on Friday, January 11, 1974.

- 5) It is generally conceded both by Urban and their associated organizations that Urban must develop some in-house estimating capabilities. The press of time does not permit training of such personnel and therefore, it appears that an immediate and aggressive search should be made for a technical man who can grow with the organization in the areas of estimating and expediting. Because the percentage of minority staff members in a minority contracting organization often tends to grow smaller as the company grows, it would be wise to consider that if minority improvement, education and training is a goal of Urban, they attempt to find a black engineer recently graduated or a black construction expeditor or manager with some experience, to begin generating and developing a strong estimating group. I provided Mr. McConnell with a lengthy analysis paper written on the estimating process and have asked him to review this so as to better understand some of the technical needs that his firm has.
- 6) As part of an improved costing program at Urban I suggested to Mr. McConnell and to Mr. Slezak that the organization go to the standard CSI coding using five digit numbers from 01000 through 16000. This coding system is fully described in a publication Mr. McConnell will acquire for his library.
- 7) The union/non-union/open shop/merit shop controversy envelopes most of the construction industry in the United States at some point or other. At present with Urban there is no major union/non-union jurisdictional problems. However it would be wise now to plan for a smoothing of relationships so that the various kinds of associated contracting organizations with which Urban must work, particularly small minority firms, can continue to do business without harassment.

On Friday, January 11, 1974 I resumed meetings with Mr. McConnell and Mr. Slezak. Mr. McConnell took me on a tour of housing he has built and we also visited his Offutt Air Force Base construction work. The homes that Mr. McConnell has constructed appear to be of reasonable quality, although by merely driving by them it was difficult to make a thorough evaluation of their construction characteristics. At Offutt Air Base we actually inspected in detail the new compressor house being constructed by Urban Construction as a subcontractor of the Kelly Company who are mechanical contractors acting as a general contractor on this particular project. It was apparent that the field operation on

this specific project was in need of closer supervision and that the manner in which the project was being constructed could cause reasonably serious cost and time problems for Urban and his sub-contractors. Local coordination of the project seemed to be maintained at a low level, construction procedures had not been clearly defined, technical problems involved in cold weather construction were not thoroughly understood and the scope of work expected to be accomplished by those participating in the project was poorly and unclearly stated by the supervising firms.

Mr. McConnell and I discussed this matter at length and when we visited the overall contractor - Kelly - at his field shanty, I made a quick review of the project and discussed certain features of the program with their representatives. For instance, it appears that one of the major problems on this project is an apparent need to leave the roof off until the compressors were set. However, it also appears that with some modifications the entrance door to the building might possibly have been modified slightly to allow the compressors to be set through the door, thus permitting the roof structure to be put on the building at a much earlier date so temporary heat for construction and thawing could be applied efficiently. This matter had apparently not been investigated in depth and as a result, heating of the building which was proceeding with only a temporary Visqueen cover over the work was to all intents and purposes ineffective in any major thawing effort.

There also was a lack of expediting followup which might have nipped some of the current problems in the bud before they became serious. A thorough study of the working drawings and specifications would also have been very helpful to Urban and its subcontractors. This experience is one of several that generally indicated to me a need by Urban for higher qualified technical personnel than they presently have.

At the air base we also visited a small warehouse building of prefabricated, pre-engineered metal construction that Urban had constructed sometime ago. This building was a reasonably good looking facility although I understand that they encountered very serious field problems in its construction. There was some difficulty with the sequencing of the job and it appears that the project was not as profitable, nor as satisfactory to the owner as it could have been had better supervision been provided by Urban.

Upon return to the office we spent considerable time reviewing the general operating characteristics of the business, particularly in relation to what future prospects might be available for Urban Construction. Mr. McConnell and his associates over the years have generated some

very good contacts. However, these contacts in many cases have been with organizations that are extremely large and often engaged on projects that are far beyond the capacity of Urban to handle at the present time.

I also was able to sit in on a conference between Mr. McConnell and the owners, Mr. Jim and Russell Barger, of the Barger Concrete Contractors, Inc. Here again Mr. McConnell illustrated the confidence and trust he is apparently able to generate in those who wish to work for him. These two young men who do excavation and concrete flat work are very interested in associating with Mr. McConnell and would like to generate an on-going relationship that could be profitable for all of them. However, again, a lack of technical understanding of the construction process is a limiting factor on how effective this relationship can be. The technical guidance and discipline in a relation of this type generally must come from the directing organization. This technical direction is not available as yet in Urban.

After a morning of discussing and listening in on conferences and reviews of jobs currently in work, I had lunch with Mr. Kleber and Mr. Frank Yelich. Mr. Yelich is the SBA staff gentleman who has followed Urban Construction most closely and is charged with the responsibility at SBA of seeing that Urban operates as successfully as possible within the range of SBA responsibilities. I reviewed my work to date with them in detail and explained the general recommendations I had made.

After lunch Mr. McConnell, Mr. Slezak and I had a meeting at which I reviewed several managerial items I would like them to consider as procedural techniques over the next few weeks. First, I gave Mr. McConnell and Mr. Slezak a set of twenty questions (Figure 1) I use to help in establishing objectives for small businesses. A copy of these questions, as well as the other materials left with them is enclosed for reference. These questions force the small businessman to think about what it is that he is really doing. The purpose in answering the questions is to equip the manager to prepare a simplified business model (Figure 2). This simplified business model identifies and shows in graphic form the business structure, identifying premises, plans and the implementation and review techniques that are to be used in the company. I feel that answering the questions and preparing a business model should be a high priority item for Mr. McConnell. This will give him and his staff along with those with whom he must work and to whom he can expose this model, a crystal clear picture of what it is his company is expected to do over the next year, two years and five years.

In my subsequent conferences with Mr. McConnell, I suggest that a detailed review of his work on this model should be an important part of any discussion we might have.

Next we discussed an estimating philosophy and I reviewed with Mr. McConnell and Mr. Slezak the apparent problems that they have in estimating. On Thursday I had given Mr. McConnell a copy of a 37 page paper on estimating that I had prepared for some university work done two years ago. This paper reviewed in depth the characteristics of estimating and what the process really means to the construction company. A review of some of the material is partially contained in Figure 3 - The Role of the Estimate and the Proposal. I urged Mr. McConnell to carefully review his estimating needs in relation to his business goals since poor estimating is only one part of his problem. He is perfectly competent to estimate very simple jobs himself, but needs technical assistance in understanding the appropriateness of the estimate and how it is to be prepared. I also gave him several good reference text names that will allow him to strengthen his own individual estimating skills. He does have a reasonably good understanding of the estimating process and should be able to generate considerable self improvement in this particular discipline.

Essentially the estimating process consists of obtaining the quantities of materials required on the job, applying a cost to these quantities and then marking up these products of cost times quantity with job burden, operating expense and profit. To do this it is essential that cost records be kept over a period of time that will allow historical documentation to be used in assigning the job burden, operating expense and profit. Unit costs for material and labor can be determined from standard estimating texts plus a detailed knowledge of local conditions about productivity and day to day fluctuations in the price of materials. Determining the quantity of any given material or amount of labor to be used is a skilled function that can be achieved by acquiring experience in taking off work. Here I recommended that Mr. McConnell not hesitate to make full use of local subcontractors with whom he has developed good relationships, as well as to seriously consider using the estimator who is available through the United Contractors Association of Nebraska (UCAN), a minority trade association having about 40 members. Mr. McConnell has not, to date, made the kind of use he perhaps could of this organization. He indicated a willingness to do this.

After all of our discussion of estimating, we then reviewed one of the most critical deficiencies of the company, that of planning the construction process. I went over with Mr. McConnell and Mr. Slezak the preparation of a network diagram (critical path diagram) for the small compressor building at Offutt Air Base. This network diagram showed in depth the entire construction process from beginning to end, including ordering

and delivering of all critical materials on the job. We then went through and pinpointed how the problems currently being experienced by Mr. McConnell could have been generated and the reasons. I believe that perhaps this was one of the most valuable consulting sessions that we had over the two day period. It brought home dramatically, directly and with no interpretation difficulties the fundamental problem that a construction organization has to keep a field job moving and on schedule. This is the essence of being profitable and if construction is not or cannot be run in a well planned, organized and predictable manner, it will be unsuccessful in most measurement areas, but particularly in the profit line.

I left this rough network plan with Mr. McConnell, along with a set of handout material on network planning. This handout material is the standard material that I use in teaching my critical path method classes. In subsequent reviews with Mr. McConnell I shall go over the CPM technique with him again to insure that he understands its use and applications.

To close out the afternoon's consulting work, I toured the Overland Wolf technical facilities (drafting, estimating, designing) with Mr. McConnell. Their organization appears to be well equipped and staffed to give Mr. McConnell assistance in technical areas. However, as with his other associates, Overland Wolf is hard pressed to keep up with their own work. Therefore, any assistance that Mr. McConnell gets from them will be basically given only if there is a good chance of adequate return to Overland Wolf or if their staff is available to do Mr. McConnell's work. This is not a desirable, nor is it a dependable arrangement, particularly in the construction business where timeliness is of the essence.

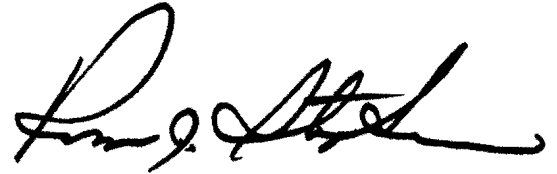
In closing, I was able to review the unaudited financial statements of Urban Construction to September 30, 1973. It appears that Mr. Slezak has the problems well in hand and I gather from my discussions with the SBA staff in Omaha that there has been a sizable improvement in the record keeping process since Mr. Slezak joined the staff some six months ago. I will not attempt in this report to make an evaluation of the financial statement since this, at the present time, is not an area in which I feel my consulting assistance can be most effectively gained. Needless to say, however, the relation between job costs, job overhead, operating expenses, taxes and net profit must be watched very carefully. At the present time it appears that Urban's operating expenses relative to the gross volume are excessively high, primarily due to the low volume and the high office overhead incurred by Urban over the past few months. I gather this overhead has been cut considerably by changes in staff and hopefully, the percentage will show a sizable drop in succeeding months.

In summary, I recommend the following:

- 1) that Mr. McConnell and Mr. Slezak immediately prepare an evaluation of their operation, utilizing the Figure 1 questions to help in setting objectives for the business model. Also, they should explicitly define what it is they want this business to do over the next six months, one year and two year period.
- 2) that Urban Construction aggressively follow the present leads on jobs they have primarily on the 300 unit housing program and whatever smaller work they can associate on with local organizations to see if they cannot generate some immediate volume.
- 3) that efforts be made to obtain some competent technical assistance preferably now, but in the event that present finances will not allow, at a point when the money is available to pay an in-house salary. The evaluation of the personnel to be added should be made carefully so a versatile individual is obtained who can do many different jobs.
- 4) that a major effort be instituted immediately to replan all present on-going work in definitive fashion, preferably by use of the critical path method.
- 5) that Urban investigate the possibility of utilizing UCAN as a cost and estimating resource. This in lieu and temporarily in place of developing in-house capabilities.
- 6) that an intensive search of the construction market be immediately made for jobs that could be put into the field within the next two months and are within the size and scope range that Urban can handle well. Presently too many of the prospective programs I heard discussed during our consulting conferences were beyond Urban's capacity.

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The company must realistically relate its own capabilities to the work it seeks. It appears to me here that SBA could be a very good friend of this company in terms of gaining additional immediate work if the organization will scale its present aspirations to a practical and achievable level.

- 7) that within the next two months I return to Omaha for one or possibly two days to follow up on the recommendations given to Urban in my meeting with them. This would be to specifically:
- a) review the answers that they have established to questions on setting objectives
 - b) to help Urban start building their business model
 - c) to review the prospects and sales approaches they are now using for obtaining additional work
 - d) to check the cost control system being initiated by Mr. Rick Slezak
 - e) to review and advise on the joint venturing and associate company technique of combining business talents.



Ralph J. Stephenson, P. E.

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Enc.