Armstrong aims to build on past success

Covering the costs of its highly-skilled workforce during a recession could hit the upmarket builder's profitability. **Philip Smith** *reports*

CASE STUDY

WITH a client list that reads like an abridged version of *Who's Who*, the Hampshire-based builder R W Armstrong should be a little less worried about the effects of a recession than many in the construction sector.

But there are concerns sweeping through the boardroom of the 50-year-old firm. Its overheads are high and unless Armstrong can maintain its £20m-plus annual income, some potentially damaging action will need to be taken to maintain its profitability.

"We have been through recessions before," said the current chairman, Nigel Armstrong, grandson of the founder. "But this one was so sudden."

It's also affecting every strata of society. Even though Armstrong's clients sit at the top of the pile, the dramatic losses suffered on the stock market mean many have seen millions wiped from their wealth.

"The good thing is that while they may have lost, say, £20m they still have hundreds of millions," said Armstrong, 47.

But it does mean that with Armstrong's projects pitched in the millions – ranging from a mere £500,000 to more than £10m – a 5pc saving will still seem very attractive in these stringent times.

And that's the challenge for Armstrong, a firm that has built its reputation on providing top-quality work for those who have the means to pay for it.

With its large number of directly-employed staff, the company can respond quickly and complete the work fast. "The only thing these people can't buy is time," said Armstrong. "But they don't want to wait months and having our own staff means we can start immediately."

The result is that a large chunk of its income is lost to staff costs.

The problem is that as demand for renovation and building work in general dries up, and other building firms start to feel the squeeze, they will look to the potentially lucrative sector of Armstrong's super-rich clients and come in with cheaper quotes.

"Because we have such high overheads we can easily be undercut," said Armstrong. "We are coming under price pressure." And with a 5pc net profit, there is little room to cut prices.

Working with high net worth customers can be demanding, added Armstrong, and that has to be costed in to the price. "These new firms may not have the experience in coming up with realistic pricing, or they may be just so desperate for the work."

> *We have been through recessions before. But this one was so sudden*

The firm employs 180 people, many highly skilled joiners and carpenters – skills that have taken time and money to develop (it takes on six apprentices a year) and which are essential to maintain if the firm is to remain in pole position to pick up such contracts once the good times return.

The bulk of Armstrong's business – 75pc – comes from refurbishments and renovations. The rest is new-build.

Clients range from big organisations such as The National Trust to landed gentry – the Anstruther-Gough-Calthorpe's, who own thousands of acres in the South and Midlands, and The Earl of Malmesbury are just two – to wealthy business owners such as Paul Smith from Celador.

SOLENT NEWS

Nigel Armstrong, chairman of R W Armstrong, says his company is being undercut due to high overheads

Most of the work comes from the Hampshire and Surrey area. "There are some very pretty villages around here and hidden away are some seriously big houses. There is a lot of wealth," said Armstrong, who has worked in the family-owned firm since leaving college and who succeeded his electrician father and carpenter uncle to assume control.

The company has built up its reputation and picks up most of its business via word of mouth, forging close links with architects and working with top-end estate agents. To top up its workforce, it uses contract staff and subcontracts skills such as roofing, glazing and plastering.

"We run 15 to 20 projects at a time but we never have more than six months' work booked," said Armstrong.

The firm is on track to hit its turnover target of £24m this year – up to May – but it's what happens after that which is the worry. Between now and then the firm has to secure contracts for the 2009/2010 year. "We are putting a lot of effort into marketing," he said. "We are sending out emails and brochures to our database of architects and clients."

The firm is looking beyond the downturn. It has just opened a new joinery yard in Surrey and is considering taking over small building firms in areas where it has current and potential contracts. Longer term, Armstrong will aim to have offices and yards in affluent areas such as Sunningdale and the Cotswolds.

But first it has ride out the recession. Costs can be controlled by reducing contract labour. What Armstrong wants to avoid is having to lay off the long-standing and highly-skilled staff on whom the fortunes of the firm depend. But he knows that to finance the salary bill, Armstrong will have to secure in excess of £20m of building work in a time when all belts are being tightened and lower-priced competitors begin to appeal.

EXPERT VIEW

Andrew Miller
Marketing Manager, Royal Mail

Armstrong's marketing strategy should highlight its up-market credentials and use real examples of exceptional work – with the aim to differentiate from a cost-based purchase.

He should consider estimate guarantees, to reassure potential clients that what is quoted will be what it costs. Armstrong must not be tempted to slash prices, as this would devalue his service. To lower the cost base, reducing contract labour is a good start, but also look at assets and permanent staff, review any acquisition or site expansion plans to see that they offer a clear return on investment, rather than further draining resources.

Investments in marketing and sales are key at this time, to generate new prospects and get more from existing and previous customers – the most common mistakes are revising price and/or reducing marketing spendboth reduce the revenues generated and put more strain elsewhere. If architects and high-end estate agents are a vital source of introductions, look at an incentive programme that rewards them for finding your customers.

Daniel Edwards
Business psychologist
Getfeedback

Armstrong clearly understands that its highly skilled workforce is a major factor in its success and realises that it needs to hold on to this talent in order to pick up contracts when the good times return. However, the short term is all about survival and it may be that economic circumstances force the company to downsize.

If this is the case there are ways to manage redundancy which ensures the remaining workforce are committed and engaged and those who have been let go are happy to return to the company when the climate allows. Downsizing is an emotional rollercoaster for employees which is always more acceptable if they understand the strategic thinking behind decisions and are clear that actions taken will have an incisive impact. Communicate regularly and consistently, even when there is not much to say as this will reduce uncertainty. Treat people fairly and as individuals, – one size does not fit all –and be seen to do so. Finally, train or choose carefully the managers that will be dealing with those who are leaving.

Chas Morrison
Business Link adviser

With the current climate the company should undertake a full health check to establish strengths and opportunities. It needs to differentiate the service it offers from those of its low-cost competitors and consider ways to broaden the customer base.

The company should review how effectively its marketing is working. Why do its customers choose Armstrong? Marketing should stress the value for money offered by the company, and the benefits of the higher skills that the company offers. It should create an offer preferable to that from their less expensive, but less skilled, competitors.

As the traditional customer base is less able to buy, the company should consider extending the catchment area (it is currently fairly restrictive). With the changing economic climate, banks reorganising and major companies moving away from the South East, the company may be missing out on new prime catchment areas. Partnership working and London 2012 offer sound opportunities and should be explored.