

Jandj electrical contractors, inc essay



**ASSIGN
BUSTER**

John (CEO) and Jean Abernathy (CFO), a husband and wife team, owned and operated J&J Electrical Contractors, Inc. (J&J). J&J performed commercial, industrial, residential, and public electrical-contracting work. Electrical work included wiring and installing anything to do with power, lighting, or other electrical equipment, and electrical contractors had to be licensed by the state of California. Often, electrical contractors were called to a job by a general contractor who had overall responsibility for constructing a building or remodeling it.

But they could also bid on projects independently, especially in the public sector. By May 2006, John and Jean had successfully grown J&J from a company of three electricians to one of fifty-four employees. They took the company to 2005 revenues of \$5.22 million, a 75 percent growth over revenues of \$2.98 million in 2001. J&J prided itself on its reputation for good customer service as reflected by John: Our most important accomplishment has been customer service. We have built our reputation on integrity, responsibility and reliability.

Even though we are not always the cheapest, when customers hire J&J Electrical for a project they know what they are going to get; there are not a lot of surprises. When we do have a bad project, we never have to go to court. Instead of letting it go to our bonding company or walking away from the project and going into litigation, we just fix the problem, take the loss, and go on. You don't want to do that all the time, but sometimes you don't have a choice. So, we've built relationships that way. We have the same clients that we've dealt with since 1987, and we have continued to build clientele.

So, our plan has been to focus on service and integrity. Despite their success, however, the Abernathys were at a crossroad. Although J&J had experienced strong revenue growth, its net income after taxes (NIAT) had deteriorated over the past three years. According to John, Ours sales have gone up, but profits have gone down because of the type of work we are doing. There are so many competitors coming into the electrical contracting market now as some of the other markets dry up. These firms think they can make an easy transition into this market, but they don't know the market and they put in low bids.

When we submit bids, due to the increase in competition, our heart tells us to bid low, but our head tells us to bid the cost estimate. From experience we know what it takes to get the job done so we can only go down so low on our bids. We bid small projects that are several thousand dollars to projects that are over \$2 million. We are doing all kinds of things including the smaller design and build projects. We have looked at where we have been the last five years and although we have been fortunate enough to increase sales a little Copyright © 2008 by the Case Research Journal, Olukemi Sawyerr Eke and Stanley C. Abraham. ??? J&J Electrical Contractors, Inc. : Remaining Viable in a Highly Competitive Industry 1 bit, our profits have continued to slide.

How to turn the ship around is a major challenge that we are facing. While most electrical-contracting firms worked in many different areas, J&J got to where it was by focusing in one area, modular classrooms for school districts, and found it difficult to change. The Abernathys were proud of how far they had taken the business; however, they knew that the company faced some

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critical issues and problems that had to be addressed to ensure its continued growth and success.

The electrical-contracting industry was a segment of the construction industry. It primarily comprised establishments engaged in performing electrical work onsite, doing service maintenance, or selling and installing electrical equipment. Companies in the industry installed electric lights, power, electric wiring for construction projects, domestic exhaust fans, closed-circuit-video-surveillance systems, and communication wiring and cabling.

In addition, they repaired or maintained electrical wiring (except for electrical transmission or distribution lines) and repaired and maintained communication and electrical equipment. Industry participants performed new work, additions, alterations, and maintenance and repairs. The primary workers in the industry were journeyman electricians. In 2005, about 50 percent of electricians were employed in construction, 10 percent were self-employed, and 40 percent were distributed in various industries performing electrical-contracting-related work.

Over 74 percent of the companies in the industry had ten or fewer employees. Many of the smaller local firms were nonunion and family owned and operated, as was J&J. Electrical contractors typically performed the job at the construction site; however, they performed certain specialty jobs in their own shops. Firms in the industry bid for public- or private-sector projects. Public-sector projects were publicly financed and usually designed to

improve the existing infrastructure. Private-sector projects were privately financed projects.

Public sector projects were governed by multiple requirements and legislation, such as federal and state laws governing wages. Contractors in the state of California were required to pay the prevailing wage rates on construction work greater than \$25, 000 and on alteration, demolition, repair, or maintenance work greater than \$15, 000. Private-sector projects were governed by fewer laws and requirements. For example, private projects were not necessarily subject to competitive bidding and could be negotiated by the owner directly with a preferred contractor based on the contractor's reputation and performance on previous projects.

The number of renovations (remodeling and add-ons) in both the public- and private-sectors continued to increase. Because of increases in housing costs, many home-owners opted to renovate their homes instead of buying new ones. Beyond residential renovation work, electrical contractors saw opportunities in the industrial- and commercial-conversion markets being driven primarily by code upgrades and technological advances. Existing power-distribution systems could not meet the demand for the greater number and variety of devices being used in buildings.

Even newer buildings lacked the infrastructure necessary to take advantage of the advances in communications technology. State and local governments passed legislation to address the deficiencies in older buildings. For example, in California, several bond measures funded the renovation of public schools and universities to update them with the latest technology. Also, the state

had mandated seismic compliance for older hospitals by 2010. Finally, many cities were turning low-occupancy areas such as downtowns into residential areas by converting offices and industrial buildings into residential lofts and condominiums.

These and other trends were providing firms in the industry with the opportunity to design and deliver renovation solutions to clients. In addition to opportunities in renovation, the Energy Policy Act of 2005 provided new opportunities for electrical-contracting firms. The act provided tax incentives to individuals who installed energy-conservation equipment in their homes, including energy-efficient appliances and heating and cooling equipment, and who utilized alternative-energy sources such as solar or wind power.

Firms in the industry could provide services to make homes energy-efficient and to install alternative-energy solutions such as solar photovoltaic electrical installations. In addition to individual incentives, the act provided tax credits to businesses that installed qualified fuel cells, stationary microturbine power plants, and solar equipment as well as those who built energy-efficient residential and commercial buildings. Energy costs and metal price increases plagued the construction industry as these were critical in performing construction work.

Crude oil closed above \$70.00 per barrel for the first time in history in early second quarter 2006, and year-to-date prices had increased by 15 percent. Copper, an essential component in electrical work, traded at \$5,490 per metric ton with a year-to-date increase of 25 percent. Economic growth continued to drive the demand for energy and metals and the associated

need for infrastructure in Asia, particularly in China and India. The lack of investment in exploration and production of precious metals and the shortage of easy-to-tap sources led to supply shortages.

Increasing energy and material costs meant increasing production costs for electrical-contracting firms. Uncertainty associated with price increases meant greater difficulty with the estimating function. Also, substantial increases in costs translated into erosion of margins. The major cost components in electrical-contracting work were labor and materials which, combined, accounted for almost 70 percent of the total value of construction work.