

The Art of Client Management

Clients' expectations and demands will run wild—if you don't establish clear ground rules.

by
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We all know of jobs where an earnest contractor strives to produce a workmanlike job, and the client, instead of gratefully accepting his product, tries to skin him alive. Although such stories raise a builder's blood pressure, it's important that he calm down and rationally assess how things got that way. Only then can he develop strategies to avoid such trouble in the future.

Keep in mind that at the signing of the contract the interest of the owner and contractor closely coincided. From that moment, however, they started to diverge—until they reached a point where mutual satisfaction was out of reach. From that point on, only one side can win—the other loses.

Even that might be acceptable if the sides were evenly matched. Unfortunately, they're not. By the time major differences emerge, the client usually possesses the completed work, control of the site, and the money. No matter how generous the payment schedule, a major portion of the contractor's profit is locked in those final draws and retainage.

What power does the contractor have? Reason? Fairness? A disputed contract and verbal commitments that no one can prove? It's no contest. The owner extracts, some would say "extorts," concessions—and the contractor complains to his wife. It doesn't have to end that way. This article is based on the notion that divergent interests can be managed. Every contractor knows about project management; this is client management. We can define client management as "procedures that increase the chance of completing a project to the satisfaction of both parties."

A shorter definition might be: how to satisfy the client without losing your shirt. Because of the unequal strengths of the parties involved, the contractor must accomplish this by disarming potential conflicts before they arise. It has been our experience that many contractor/client problems originate in (1) unrealistic expectations, (2) the absence of ground rules, and (3) the wrong signals.

Client Expectations

For openers, take an unhurried look at the client's point of view. Why do clients start off smiling and end up snarling? Sift through your own experiences, the good ones and the bad ones. You may conclude, as we have, that a major source of a client's distress is his unsatisfied expectations. It boils down to disappointment: What the client sees falls short of the image he was carrying in his head.

How, you might ask, can you be responsible for the client's imagination? The fact is, the client's expectations are usually unrealistic. Remember that it's not easy to see the reality behind a designer's rendering. Real life is always smaller and less elegant than a pretty drawing. The real question is: What are you going to do about it?

Rather than chasing down complaints generated by disappointment, it is a lot easier to bring the expectations down to earth. How? Start by not fueling those expectations with your own words. Don't tell them the design is one of the nicest you've seen in years. Don't say, "You're going to love the way this expands your living (recreation-office-assembly-storage) area." These and dozens of other small comments tend to raise expectations. Such statements may seem harmless. Down the line, however, you will pay dearly for the expectations you excite.

Instead of building high expectations, find opportunities to prepare the client for reality. State clearly that drawings excite the imagination and always look better—and larger—than the finished project. Meet the client at the site after the footers are poured and show where the partitions will be. Let them visualize how the furnishings will fit. Tell them, "This is probably going to seem smaller when it is built than you visualized." Openly mention the danger of unrealistic expectations, especially if this is their first construction experience. Without disparaging their commitment or your performance, do whatever you can to wean them away from their imagination. Your credibility as a seasoned pro will be enhanced, not diminished, by down-to-earth realism.

Above all, do not promise anything! Promises increase expectations and diminish satisfaction. Even if you choose to upgrade an item out of your own pocket, do it quietly—and don't be surprised if the client responds with even higher expectations.

In brief, to satisfy clients you must exceed their expectations. That means you must keep them reasonable. When do you start? As soon as the contract is signed.

Ground Rules

Contracts tend to tilt against the contractor. They either bind him in a straitjacket (the Standard AIA Agreement) or they leave things so loose that any question becomes a battle of wills. Both types fail to address important questions that arise time after time.

In order to avoid tedious legalistic documents, a contractor might find it

useful to prepare a list of "ground rules" under which the parties agree to operate. These rules should be written to defuse the typical problems before they arise. As the contractor, you should know what those problems are going to be—the client hasn't been there yet.

The time to introduce your ground rules is after the price and specifications have been agreed to, or immediately after the contract is signed. Both the client and contractor should initial or sign them. The rules should be written in ordinary language, and their "legality" is not too important. Most people will abide by a reasonable agreement simply because they have signed it; enforcement through the legal system is seldom feasible in any event.

If a particular ground rule is questioned, you may choose to explain the reasoning behind it, or you may simply state that "this is our company policy." One does not have to understand the basis for company policy—it just exists. If an objection arises, the rule can be negotiated and modified on the spot. (The contractor should pay attention to why the objection is raised, of course.) Of paramount importance is the client's perception that the contractor is governed by well-established standards, not by the pressures of the moment.

Here are some examples of ground rules which have proven useful for our company:

Changes in the work specifications, including material upgrades, are subject to the contractor's written acceptance, and additional charges are payable in full at the time of the request.

The purpose of this rule is to (1) discourage change orders, which break the rhythm of the job and severely erode profits, (2) eliminate haggling over the charges, which are always much higher than the direct labor and material costs involved, and (3) remove the client's incentive to find credits to offset the additional charges at the end of the project.

The owner will submit all material and color selections by ___ (date), including an alternate choice for each item. Except by prior agreement, all selections will be standard materials available from local sources.

One major source of delays is the owner's failure to make timely decisions, then blame the contractor for

delays. This provision places the responsibility where it belongs. If the selection date is not met, the contractor should notify the owner by registered letter that he is in violation of the agreement and may incur additional charges due to the stoppage of work or scheduling delays.

Limited Warranty. All labor and material for work covered by this contract is guaranteed against defects for a period of ___ from substantial completion or use by owner unless otherwise stated. This warranty shall not apply if final payment is not received in accordance with the terms of the agreement.

Every contractor should be ready to warrant his work for some period of time. With this clause, the warranty provides powerful leverage in the event that payment is arbitrarily withheld. If so, a registered letter should state "Payment has not been received in accordance with the terms of the agreement, and you are notified that all warranties and guarantees are hereby cancelled."

Owner is responsible for the protection of work completed and all equipment and materials delivered to the site.

The mysterious disappearance of materials and tools from the work site is always a problem, but tends to diminish with this clause.

Any claim for damage by the owner will first be addressed, through the owner's insurance, and under no circumstances will the existence of such a claim delay payment of monies otherwise due.

Anyone can make a claim. Contractors who have been subjected to excessive retainage and payment delays for real or spurious claims will recognize the utility of this provision.

The owner appoints ___ to inspect and approve work on the owner's behalf; inspections will be made in a timely manner upon the contractor's request.

It's always better to have one individual to deal with, and frequent inspections with written acceptances are a good way to limit future problems.

The Agreement is based on using existing access to the work area. Unless otherwise specified, no costs have been included for repairs to access areas such as driveways, walks, shrubs, trees, lawns or entries. The Contractor will use normal care and procedures in moving and storing materials.

This tends to foreclose another heavily traveled path to claims and payment delays.

Upon substantial completion the contractor will remove all construction debris and leave the premises in a broom-clean condition.

This limits to a reasonable level the contractor's responsibility for cleanup of the work site. A surgically clean site may suit the owner, but it can be expensive to attain.

All claims or disputes arising out of this Agreement shall be decided in accordance with the rules of the American Arbitration Association, unless the parties mutually agree otherwise.

This is perhaps the single most important provision of all. It guarantees the timely resolution of intractable problems through a swift and economical hearing procedure.

Wrong Signals

The cost of construction is intimidating to most buyers, who generally lack a clear idea of how the costs are allocated. Where so much money is involved, they suspect a lot of fat must also be present—so they probe to see if they can tap it. Initially they try to upgrade materials and request minor changes in the scope of the work. If the contractor lets them succeed he sends the wrong signal.

A game begins—like a child testing overly permissive parents: The client pushes as far as he can before meeting resistance. The further he gets, the more difficult he is to stop. When the contractor finally tries to apply the brakes, he appears to be imposing arbitrary and unfair constraints.

The "deep-pockets" illusion can be corrected at the outset by the simple act of charging for every upgrade, no matter how small the amount. In fact, the smaller it is, the better. If the client is asked to pay for a wallpaper upgrade of \$1.50 per roll on a \$54,000 project, he immediately perceives that money is important. Far from alienating him, this action provides assurance that the \$54,000 is well spent.

Because they are paying for the project, clients sometimes get the idea that the contractor will bear all the responsibility and deliver a completed project into their waiting hands. This is another misconception that leads to a poor working relationship. Words and actions that say, "We'll take care of everything" send the wrong signal. It is unhealthy for the client to be a passive spectator on his own project. It gives him time to scrutinize every detail and bird-dog the work. Most importantly, it robs him of the chance to participate. The best message for the contractor to send is not, "Look what a wonderful project we are going to produce for you," but rather, "Let's see how fine a project we can produce together." The client who feels he has participated in a joint effort with the contractor is far more likely to be satisfied with the result.

It's up to the contractor to bring the client into the project in a productive way. A good strategy is to start off with something like this: "Mr. Smith, our construction experience has shown us that it's important for our clients to understand that we both have responsibilities in making this a successful project. One of your responsibilities is to help us get off to a good start by mak-

ing the material and color selections within two weeks. We are also going to need your help in performing inspections when we need them, and in preparing for the progress payments so we can move forward without breaking stride."

Follow the client's performance and don't be shy about reminding him when he's not following through. But also make a point of bringing him into the process by providing an occasional update on the schedule and the performance of the subs.

When materials are delivered, it's not a bad idea to look them over at the site with the client. When questions arise, try to share the decision in a way that engenders a feeling of participation. Even if an architect is monitoring the work, it doesn't hurt to maintain a direct relationship with the owner.

On commercial work, try to establish contact with the supervisors and personnel who will occupy the new space. Show them how it's going to look. Solicit their comments. Early participation means fewer problems down the line. You will bleed off resentments and lower punch-out costs.

Tactics

The contractor/client balance of power shifts at different stages of the project. At the beginning the contractor has considerable leverage, greater than he will enjoy later. The client wants the project badly enough to pay all that money to get it. He has finally selected the company to perform the job, has negotiated a contract, paid a deposit, and initially, has nothing to show for it. In contrast, the contractor has received a substantial payment on a promise to perform. He's in control. As the work progresses, their positions reverse: The client possesses the completed work, and controls the remaining funds. The contractor is vulnerable. If there is a conflict at this point, the contractor loses.

Client management offers a way of improving the odds for a successful project. However, if the contractor intends to provide a positive working relationship he must act early, while he has leverage. For that particular project the opportunity will not come again.

Summary

While concentrating on production and company management, contractors may overlook personal factors that are critical to a project's success. Client management can increase the chances of producing a mutually satisfactory result by using the contractor's initially strong position to (1) generate realistic expectations, (2) establish favorable ground rules, and (3) send the right signals to the client. A variety of statements and ground rules have been included to illustrate specific points. The reader should modify the content and wording of these to fit his own situation. ■

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