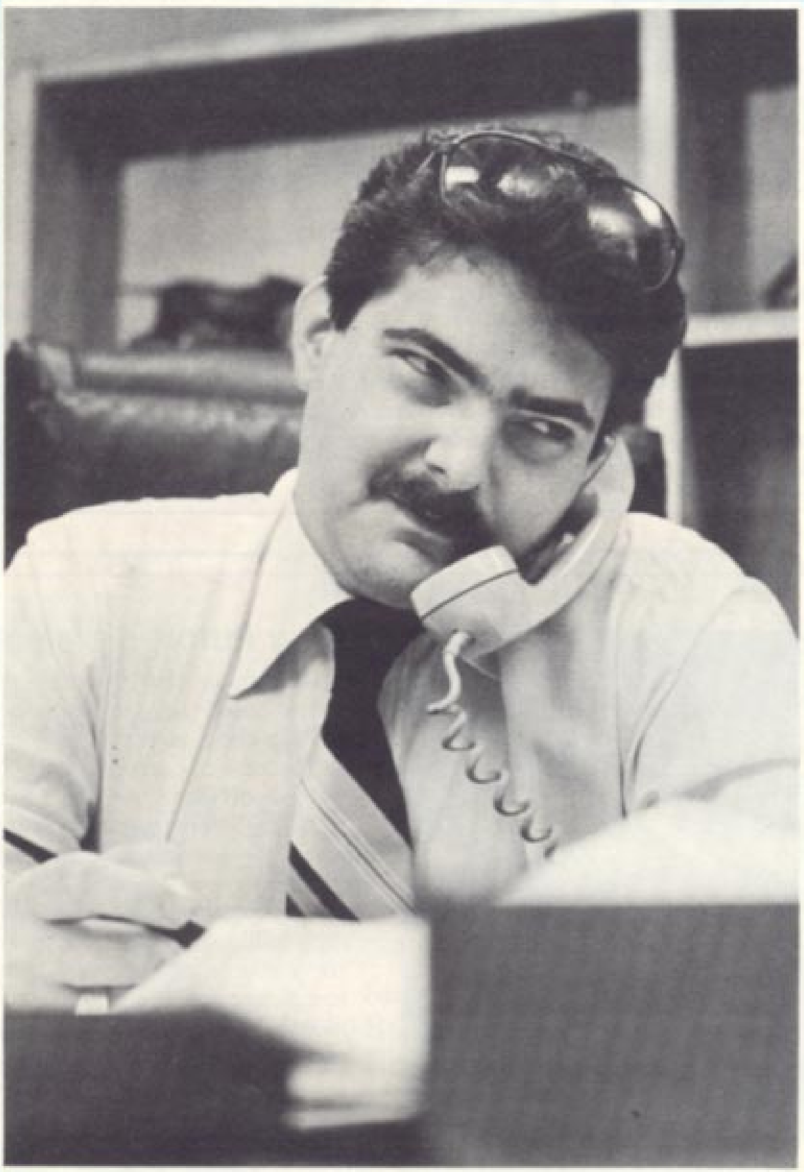
Taking Aim at Shifting Targets

The Construction Industry May be Undergoing Radical Changes But the John Hampshire Company is Keeping Pace



At 30 years of age you'd think that P. Kenneth Hampshire might be a bit young to be chief executive officer and chairman of the board of one of the most progressive interior contracting firms in North America—the 70 year old John H. Hampshire Inc., of Baltimore, Maryland.

At $25 million a year gross and with a reputation for doing just about everything in interior contracting as well as it can be done, the Hampshire Company is construction proof that planning and diversification—and good leadership—are alive and well.

As for Ken Hampshire, he may be a member of the Young President's Organization, but he's no neophyte to construction. At age 12 he was working in Hampshire company warehouses, at his father's insistence. At 16—as soon as he was legally old enough—he was working regularly in the field.

And at age 20 he was already at work in the office designing and implementing management production systems and other productivity tracking systems. As soon as he graduated from Syracuse University in 1973, he was heading up a company division, Hampshire Commercial Interiors, his own total turnkey concept for interiors from concept-to-design-to-construction-to-furnishings.

When death abruptly claimed the family founders of the business in the mid 70s including Ken's father, the late Paul K. Hampshire, Ken Hampshire was ready. He moved quickly and firmly to company leadership —and John H. Hampshire, Inc. has

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been moving just as quickly and firmly ever since.

Married to former Janice Lynn Moree, of Baltimore, and the father of a son, Paul Kenneth Hampshire III, Ken lives in Baltimore’s Roland Park area, the oldest planned community in the U.S. A lacrosse player at Syracuse, he majored in productron management.

The John H. Hampshire Company was founded in 1911 as a plastering firm and in the 30s made a major step when it took over the Celotex acoustical franchise. It opened business offices in Washington, D. C. in 1935; in Richmond, Va. in 1943; in Roanoke, Va. in 1946; in Norfolk, Va. in 1949; and Charleston, W. Va. in 1954.

Today, the company organization embraces the Commercial Interiors division, and 11 departments: fireproofing, plastering, steel framing and drywall, flooring, demountable partitions, carpentry/cabinet shop, acoustical, painting, seamless walls and floors, and ceramics and pavers.

DIMENSIONS: Ken, it’s been said that many general contractors don’t like any sub getting too much of a job. Yet your company is structured to take as much of the interior as possible. How can you make it work?

HAMPSHIRE: Some general contractors like what we have to offer; some don’t—to their own detriment.

This company is, to my knowledge, the only one in North America that promotes itself as a complete Section 9 interior contractor. With only one exception, the Hampshire Company is capable of doing any scope of work in Section 9 as defined by the Construction Specifications Institute. The only exception is doing marble and terrazo work.

DIMENSIONS: Why such strong emphasis on totality in Section 9?

HAMPSHIRE: You are what you define yourself as. If you call yourself a drywall contractor or a plastering contractor, that’s what you are—and how your customers perceive you.

We want our customers to know that we are prepared to do everything in the interior finish area. There are a half dozen general contractors right now who simply call Hampshire, knowing they don’t need to call a variety of subcontractors to get the same scope of work accomplished.

We take off, price and install all of these finishes. When it comes to interiors, we feel we do it all.

DIMENSIONS: How about breaking out prices? No specialty contractor can avoid that issue.

HAMPSHIRE: Of course, we’re asked to break out. From a company viewpoint we would prefer not to do that—but we’re realistic enough to know that no stand-pat rule is workable. If a general contractor or owner’s representative wants to know a specific price on a specific item we’ll obviously break out that item.

DIMENSIONS: Still, though, that allows sometimes the opportunity to pick off the low priced items-and leave you with the rest, doesn’t it?

HAMPSHIRE: Well, yes, I suppose so. But there’s a practical as well as a philosophical way to approach this matter.

The Hampshire Company attempts to be a total turnkey interior company. We can coordinate our own work and by coordinating the interior we are providing a valuable service to

the general contractor that can’t always be measured by low dollar alone. We can prove that it is in the contractor’s best interest to let us coordinate rather than throw everything and everyone together and hope it all turns out well.

We package commodity items such as drywall and plastering by including the speciality items in a project. That way the pricing is in balance. Our philosophy is that we have fewer projects but we go after the maximum dollar on each one.

DIMENSIONS: Fewer projects? I believe you mentioned that your company does more than 2,000 jobs a year?

HAMPSHIRE: Last year we did some 2,250 jobs and that total represents what we believe to be a judicious mixture between smaller rapid turnover work and larger jobs.

We do monumental work, but not as much as you might imagine. We go after the maximum amount in each job rather than chasing after a large number of big projects and getting bits and pieces. Even then, our job total runs over 2,000 annually.

DIMENSIONS: That sounds almost self-contradictory. You don’t want bits and pieces of 200 jobs—but you’ll settle for your annual total of 2,250. Would you mind explaining that?

HAMPSHIRE: The Hampshire Company is really geared for many jobs; we’re structured around small jobs—and netting out well. That's the bottom line.

We did a federal project for $4 million in plastering and acoustical on the James Madison Library of Congress addition. For four years we fought the usual situation with changes, delays, overruns, negative cash flow, etc. When you put in all the administrative estimating, and engineering costs, that type of work is not all that profitable.

Our bread and butter is the $100 thousand to $500 thousand jobs—and we close a good percentage of those kinds of jobs.

But we service our existing customers. For them there is no such thing as turning down a job request regardless of its small size. Our relationship is good; we concentrate on it —and we don't want to lose it by failing to provide good service.

DIMENSIONS: Then you're looking for a half dozen big ones a year and a lot of small jobs for cash flow and profit?

HAMPSHIRE: We're always looking for profit.

That's the bottom line. But you're right. We're geared for many small, well-managed jobs—portfolio management, really. Other contractors gear up for 3-4 big jobs where one sour one could really hurt. We're geared for a couple thousand and a half dozen bad ones shouldn't hurt that much.

DIMENSIONS: A few moments ago, Ken, you alluded to the shift in marketing targets for wall and ceiling contractors. You indicated a shift from construction people to money people as the ones to go after.

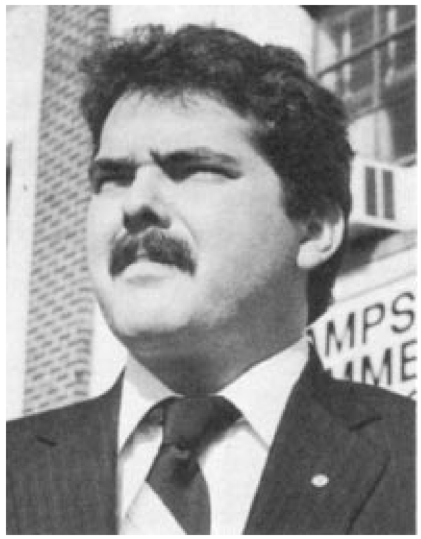
HAMPSHIRE: The shift has already taken place. For the past 10 years, times have been relatively good and it hasn't been all that important or vital to have to go out after work.

Today, it's get to the owner and sell—or- to whomever is holding the money, the financing. And they want to know about tax implications as much as about construction methods.

We have a large package to offer and I don't want that offer being relayed by someone else such as general contractor, an architect, or an engineer. I'd rather tell my own story and know that it's been told well and told right.

DIMENSIONS: You don't mean you're giving up on the general contractors and design professionals do you?

HAMPSHIRE: Not at all. But the key to 1982 and beyond will be selling to the owner, the financing group, the construction manager or contractor—the whole cast. Bid work is available—but the profit margins are slim at best.



That's why we're emphasizing ourselves as a Section 9 contractor. The filing systems of the design professionals are set up according to the CSI Uniform Construction Index and it represents the way construction work is specified, bid and contracted for. We must sell $2 million a month to make our average, and we have our own marketing reps going around updating our product books for contractor and architect customers.

At the same time, we're approaching the financial community, lawyers, real estate people, accountants. These are the people who control the money and can generate work—and then get the financing.

Look at Merrill Lynch's recent acquisitions. They're pulling the money business together—real estate, stock brokerage, insurance. We've been called in more than once by the money people and they want to know the tax angles on anything they build.

DIMENSIONS: That makes the demountable business rather attractive, doesn't it?

HAMPSHIRE: Certain kinds, absolutely, because they can be written off the same as furniture. Certain acoustical and lighting systems can be written off—if it can be detached and removed without defacing the area.

I think that with the Reagan tax incentives, the emphasis will be on restoring older buildings. The investment tax credits—15% to 25%—come right off the bottom of your taxes—and accelerated depreciation comes into play too.

The new tax program can be a boon to the contractor who uses it properly. When an owner or developer doesn't know or has overlooked a tax angle, it's our job to help fill them in.

Just as an example, we were called in by Dick Harris of E.L. Harris and Company to consult on the interiors of the Wyoming General Hospital that the Harris Company was doing in Mullens, West Virginia.

We met several times with Dick, the owner, and the architect, making recommendations on products that would provide tax advantages. Consequently the private hospital is being designed with demountables that were 20% more expensive than drywall. But the investment tax credit plus accelerated depreciation means the hospital could recover the difference in 1½ years and after that it was a profit improvement.

If the project goes ahead, we'll not only do the initial installation—we'll be back maintaining that hospital for the next 20 years—and that will cost the hospital owners less, too. The hospital wanted lowest life cycle costing; that's what we gave them.

DIMENSIONS: You've mentioned your own penchant for diversification and the stress that Hampshire puts on defining itself as a Section 9 contractor. Where does this leave the one-service contractor, with the dinosaurs?

HAMPSHIRE: Not necessarily. For a small service contractor it's probably best to get down to a minimum overhead and then service the daylights out of the customers. The future does look a bit rough but there'll always be a commodity market.

And this involves specialization. We specialize in Section 9 so we're geared up . . . structured as it were . . . to do this kind of mix. If you're going to do commodity work, then you need to structure yourself for it. When you're bidding hard on a drywall job, the gross markup is around 10%—so you better be organized to operate on that kind of markup.

DIMENSIONS: Getting back to the 2,000-plus jobs your company does each year. How do you keep an effective profit control on such a high number?

HAMPSHIRE: We have a complete computer system which is the only way when you have as many different jobs as we do. Every job comes out twice monthly on trial balance and once monthly on a backlog report.

The trial balance gives us labor, material, expenses and percentage of completion against projection. Department managers go over their work at monthly requisition meetings as well as weekly sales meetings.

I don't check jobs regularly below a given amount, but no job will slip from our attention regardless of the job's size.

DIMENSIONS: From a long range point of view, Ken, where do you see Hampshire—and the industry—going?

HAMPSHIRE: I see Hampshire doing very well. We've got an $18 million backlog right now and I don't project any drop in our sales for 1982.

As for the industry, it will continue with strong emphasis on renovation. Union shops depend pretty much on what the unions do about their productivity. There's a strong shift right now away from traditional union markets to merit shop operators because financiers simply won't sit still for the 25% additional premium for the luxury of unionism—not when money is running 18%.

For many contractors, it falls back to the reputation. When times get tougher we have a 70-year old reputation for quality and integrity to fall back on. Laurels won't support you but they sure do give you something to hang onto.

Casting bread on the water is still a good company practice. It might not come back tenfold—but it will come back.