

Addressing the Dynamics Between Prime and DBE Contractors

Problem Statement

To deliver well-built projects, and to avoid cost overruns and schedule delays, prime contractors need a qualified, experienced and diverse pool of subcontractors. Prime contractors, seeking work on USDOT projects, must work toward meeting Disadvantaged Business Enterprises (DBE's) inclusion goals as set forth by the State. Prime contractors find it difficult to find and engage experienced DBE subcontractors.

By nature of their disadvantaged status, the perception is that small companies are typically understaffed and do not have sufficient business services in place to fulfill all (contractual and administrative) requirements of a large contract and are therefore unable to perform productively and efficiently.

In California in 2018, there are currently only 394 total DBE companies with applicable transportation and infrastructure certification work codes to meet approximately +\$10B in statewide public works construction demands. The +\$10B figure does not include the CAHSR Program, federal, county and city bond funded construction projects. This figure only includes delivery models for bid/build, design/build and CMGC projects.

Here we identify these shortcomings and present solutions that address the problems prime and small contractors face when engaging on transportation construction projects.

Statewide Project Challenges

By securing a sponsorship role on a public works project, prime contractors generally assume more risk than DBE subcontractors. Risks include fulfilling quotas for DBE participation and inclusion on their projects. Understandably, prime contractors manage their companies at a much larger scale which can more easily absorb these risks associated with project costs and a schedule that must be maintained. DBE subcontractors do not have equal risk. However, they typically carry a greater burden since they do not have access to internal resources to help realize the same economy of scale support. DBE owners and employees wear many hats and assume various roles within the company.



Simple solutions to gaps in communication are what make this approach so successful

Both business groups have the same goals: to get contracts, to fulfill contractual requirements and to make money. Because of the lack of available DBE subcontractors and historically high goal setting percentages on statewide projects, primes have consistently been unsuccessful in meeting project goals at bid time or during the life of the project.

Current Industry Needs

- Qualified, responsive DBE's to meet project goals
- Established programs and processes effecting lasting and comprehensive change between agencies, primes, and DBEs
- Small contractor resources
- A camaraderie, trust, and honor system between agencies, primes, and DBE's
- Assistance with funding: including lines of credit, prompt pay and project funding.
- Applicable, real-world information on business strategies for small contractors.
- Strategies for primes to reach more DBE's
- A greater pool of certified DBE contractors
- Education and experience with collaborative project partnering

Our Response to Industry Needs

- Creating plans to build DBE confidence in taking risks and increasing their capacity
- Connecting DBE's to large contracts and contractors through scope alignment
- Learning about DBE issues and finding solutions to those issues that benefit all stakeholders
- Continual relationship development and partnering with prime contractors
- Research on funding and transportation policy issues (e.g. – prompt payment) and transportation legislation to assess the strengths and weaknesses in the industry
- See(k)ing out new DBE's that qualify for certification and provide resources to become certified

Our Response to those Challenges

To begin filling the gap between public agencies' desire for inclusion of DBEs on public projects and having qualified DBEs available to work, CPM Logistics LLC (CPM) entered into a voluntary public-private-partnership (P3) with Caltrans to address chronic, reinforced perception issues in the transportation industry and to provide solutions to these problems. Through that partnership the Prime-DBE Cooperative (PDC) was formed. The PDC was an 18-month pilot program that consisted of bi-monthly workshops to engage prime and DBE contractors. Each member was required to introduce new ideas and methodology to improve communication and to create forward movement between the two groups. It was because of this P3 that we were able to utilize the strengths of both a public agency and a private company, which resulted in significant symbiotic progress in bridging the gap of working together between primes utilizing DBE subcontractors.

During the planning stages of the PDC, CPM and Caltrans wrote a business plan to provide the foundation and to generate structure for the program. This plan was the roadmap to assist the group in achieving the PDC's goal – that being to increase contracts between prime and DBE

contractors. The business plan was developed based on feedback from many large, California based prime contractors as well as DBE subcontractors working on transportation projects. Each party provided valuable insight into perceived obstacles prohibiting mutual engagement. The outcome of these discussions furnished the basis of the PDC, initiating real industry change that would result in more contracts between prime and DBE contractors.

The PDC's business program allowed for four prime contractors and 40-50 DBE subcontractor members. We aligned our DBE outreach with targeted work codes that supported transportation construction subcontracting needs. These work codes included concrete, asphalt, landscaping, rebar, earthwork, paving, Classes A, C and D contractors. The first four prime contractors that CPM and Caltrans contacted for involvement committed to the PDC. The benefits of this program were realized by all primes and DBEs – increased participation in meeting goals (through partnering and/or mentoring), realizing project goals, increased small business utilization, economic development (keeping the dollars in California through small business utilization), fair market value pricing through knowledge transfer from primes to DBE's and bringing up primes and DBE's to the same quality standard.

These positive results are quantified through the on-going surveys we collected after every event.

- Contracts between participating Primes and DBE's increased by 39%
- DBE's found Primes 28% more receptive since the start of the program
- Primes found DBE's 18.62% more receptive since the start of the program
- 25% of the attendees were 'Extremely Satisfied' with their program experience
- 30% of the attendees felt that the Prime presenters answered questions 'Extremely Well'
- 27.25% of attendees felt that the presentation topics were "Extremely Relevant"

The primes also agreed to the core provisions of the business plan – that being a commitment to provide two relevant, industry focused presentations and to attend all nine workshops.

All primes attended all workshops.

Components of the PDC that were critically important for real, lasting change were that through consistent exposure to one another we were removing reinforced obstacles, building relationships, managing expectations, creating a receptive environment, effective facilitation, communication and administering a feedback loop. This feedback loop consisted of communication, expectations, education and responsiveness.

Communication:

Participants had to respond to every member of the group, were required to ask questions and expect responses from members, engage with the members in a timely manner and to offer assistance when needed.

Responsiveness:

Participants organically increased communication by asking questions and providing answers based on construction needs and industry knowledge, exposure + familiarity = decrease in negative interactions and to provide respect to provide responses within 24 to 48 hours, even if it is to communicate that you are busy.

Education:

Participants shared industry knowledge through communication during the workshops, by email and phone, and presentations, one on one conversations, taking the time to educate the group members and providing industry standards and new information through the workshops.

Expectations:

Realize member expectations through discussion, respond to group members and validate and/or address what is expected (ie – When I ask you a question, I expect you to respond with an answer).

Solutions for Successful Cooperation

We achieved these goals through active facilitation at bi--monthly workshops with these key provisions:

- Voluntary cooperation (ie-“Buy In”)
- Education
- Accountability
- Consistency
- Support
- Better resources
- Incentives (more contracts and money)

Challenges to the Contracting Process

Based on information provided through word of mouth and participant surveys generated through the workshops (from both primes and DBE’s), we collected data that allowed us to tweak and update our business plan on a monthly basis. The outcome of our careful planning was that an average of 40 DBE contractors (out of the +/-370 DBE contractors Statewide working on Caltrans projects) established working relationships with the four prime contractor members.

After eight participant surveys, 83% of small contractors responded that they were Extremely Positive or Very Positive that face-to-face networking with primes was a positive experience. And 41% said that primes are more responsive and receptive since the first workshop. Overall, contracts between the prime and DBE members increased by 37% by the end of the program.

Since its inception, the PDC waiting list for future workshops has grown to include other major prime contractors that learned of the program by word-of-mouth. The original workshops consisted of “real” industry information provided by the primes and industry experts that included estimating, unions, building trades, bonding and insurance, partnering, contracts, and

federal, state and local certifications. Because of this, participating DBEs can make better informed business decisions, increase their capacity, and work toward their business plans as planning tools for reaching their goals.

Public-Private Partnerships – Small Business and State Agencies

The PDC is a Public-Private Partnership (P3). This is important because P3s offer a solution to deliver public works projects at the federal, state and local levels. P3s present industry and agencies with new opportunities through small business flexibility and significant agency resources.

It was because of this voluntary agreement between CPM and Caltrans that each were able to draw on the strengths and resources of the other and provide significant value for primes and DBEs.

Why was the PDC successful?

Through the bi-monthly workshops and the commitment from prime and DBE contractors at the beginning of the program, we were able to foster familiarity that resulted in increased communication and improved relationships between each other.

Our approach represented Paul Smith's statistic from the book *Sell With A Story*. He includes an especially meaningful statistic for primes and small contractors in the transportation industry. With regard to a 1999 survey, he writes "Of people **in general**, how many do you think are trustworthy?" The average answer was 30%. Then a follow up question: "Of people you **know**, how many do you think are trustworthy?" The average answer shot up to 70%. This suggests that people who *don't* know you default to not trusting you. But people who *do* know you default to trusting. This translates to our industry and business in that, just by getting to know industry people, you could increase your chances of getting contracts by 40%.

We were able to eliminate the background noise (misconceptions from both groups) and focus on aligning the business scope of two groups toward a common work goal. The consistent and frequent workshops allowed us to engage people on the most basic level – as people. By nature, most were helpful and engaging after connecting in the first workshop.

Communication works. These groups, primes and small contractors, were struggling to work together because of a fundamental lack of understanding of the other group's business approach. We recognized this deficiency and acted to create the PDC program. We were a translator between the two using language that everyone understands.

Conclusion

Through the PDC, we were able to break down industry perception caused by chronically reinforced and negative interactions between primes and DBE companies. These perceptions existed because the primes and DBE's did not have constant exposure to one another. We

were able to successfully generate positive and lasting change by companies that volunteered for this pilot program.

CPM has been successful in starting and fostering relationships within the small business community. We have established our place here by creating spaces for their voices to be heard, by careful planning, offering educational and supportive resources, and assisting in completing project goals – sometimes on projects that were on the path to failure. We also recognized the value of working on a volunteer basis, mentoring, and participating in industry organizations, to create more connections and lay the foundation for future working relationships.



Communication works. These three groups – industry partners, primes, and small contractors – were struggling to work together because of a fundamental lack of understanding between them. We recognized this deficiency and acted to create the PDC program. On many of their projects, CPM essentially acts as a translator between this triumvirate, using language that everyone understands.

Once these groups were able to communicate, projects became more successful in hitting their inclusion goals. Slowly but surely, the pool of qualified and effective subcontractors has grown. By encouraging access to resources and education, CPM has helped create personal and professional relationships that assist all three groups to function as a team.