

Case Study: Caribbean Civil Group, Nassau, Bahamas

The Caribbean Civil Group (CCG) is an engineering firm, based in The Bahamas that specializes in infrastructure projects for the government and private developments. Ray McKenzie, a detail oriented Bahaman engineer who was educated in the US, founded the company. After several years of slow growth, Mr. McKenzie faced a critical decision: he could continue as a subcontractor for large, international engineering firms, or he could compete directly with those firms, his preferred option. To do this he leveraged his meticulous nature and his local understanding of Bahaman institutions. His conscientiousness gives him the talent to focus acutely on customer needs, and his local knowledge allows for highly efficient execution of service. These advantages give him a competitive edge over other firms. He has successfully leveraged these advantages, growing his company by offering exceptional service at a lower price than his competition.

Business Challenge: “Sub or Prime?”

After starting his company in 2001, McKenzie soon faced a decision: become a perennial subcontractor, leaving large infrastructure projects to international companies, or compete directly for those contracts. Upon returning to The Bahamas, McKenzie possessed world-class talent, but lacked experience. So, he dedicated the early years of CCG to subcontract work for international engineering firms. These firms contract with the Bahaman government to build roads, and civil infrastructure. McKenzie soon realized that as a subcontractor his profit margins would remain relatively small, and his negotiating power would stay weak. At the same time he found that he possessed an innate attention to detail that allowed him to anticipate client needs, work efficiently, and keep costs low. This penchant for understanding and meeting customer needs, combined with a local’s knowledge of the Bahaman regulatory regime, led McKenzie to believe he could compete directly with prime, international firms.

Today Caribbean Civil Group (CCG) performs design, planning, and site management services for civil works and is expanding to other infrastructure-related construction projects. Mr. McKenzie started the firm by himself, but grew its capacity by adding four more staff and securing professional office space. For now, the firm focuses on horizontal aspects of civil engineering – roads, water, sewer etc. In this space, CCG estimates that it enjoys over 50% of current market share in The Bahamas. Going forward, CCG’s wants to broaden its scope of services so, it has recently started bidding on “vertical” projects that deal with buildings and other structures. Diversifying in this way will allow CCG to capture a larger portion of the civil engineering market and grow beyond its current niche.

McKenzie grew up in an average family that would be considered middle class by Bahaman standards. Through hard work in school and a talent for basketball, he had the opportunity to attend college in the US, where he received an engineering degree from North Dakota University, and graduate studies at the University of Memphis. After working in transportation services in the state of Florida, Mr. McKenzie decided to pursue his dream of starting and growing an engineering company in his native country. After a few years of working as the subcontractor he realized he needed to choose as to whether or not he would stay there.

Alternatives

Option 1: Subcontractor model. Subcontractors work for large firms rather than directly for the contract provider (in this case the Bahaman government or private developer). To get his start, Mr. McKenzie won several subcontracts, adding capacity and local insight to larger firms’ projects.

However, remaining in this position would mean minimal profit margins, and a narrower potential contract pool. Large-scale civil engineering projects are typically the domain of big international firms such as Stantec, a firm of US \$1.5 billion in gross revenue (2010). Stantec, and other firms like it, manage engineering projects all over the world. They are often in need of locally based firms to coordinate projects on the ground, or operate as an interface with local authorities. To fully maximize the role of subcontractor CCG could remain small, focus on local knowledge, and maintain close relationships with the larger firms.

Option 2: Prime contractor. Prime contractors bid directly for large-scale projects. They require a robust and growing skill set, and contacts within the various government agencies. Mr. McKenzie felt he could compete directly for this work based on meticulous response to customer needs and intimate local knowledge, despite the strength of international firms, and the presence of some smaller national companies. This option allowed CCG larger profit margins and a bigger pool of potential work. To win work as a prime contractor CCG would need to deliver superior service at a competitive price.

Action Taken

Over the past several years McKenzie has been increasing his company's share of prime-contract work. Even though governments are spending less on infrastructure projects in the wake of the recession, CCG has seen its profits rise. The following factors have enabled CCG to assume the prime role on a number of projects.

1. Deliver superior service. For CCG delivering superior service begins with meticulous response to client needs. McKenzie embodies attention-to-detail, and focuses that trait on customer understanding and service. He has been able to anticipate and meet client needs better than his competition. It has become part of the personality and reputation of the firm to excel in its responsive attitude toward clients. In interviews, clients affirmed that CCG was seen as being above average in timely attention to issues, even when compared to large international firms. Additionally, CCG employs an unmatched expert staff in comparison with other locally based firms. The staff is continually developed through superior training in both technical skills and leadership.

2. Leverage local knowledge. One competitive advantage enjoyed by the firm is firsthand experience with Bahaman government policies and processes. These include government permitting and operations structure. CCG has used its intimate knowledge of Bahaman practices to establish itself as a preferred contractor. The regulatory regime, and required permitting, can be difficult to navigate for the average outsider leading to costly project start-up delays. CCG has leveraged its familiarity with the system to keep costs low and avoid project slow-downs.

Results

By competing directly for larger contracts, CCG has enjoyed greater profit margins and negotiating power. Today, 80% of revenues come from primary clients and only 20% from sub-contracting work. Caribbean Civil Group has enjoyed growth in spite of a general downturn in the civil engineering industry. However, because the industry is so susceptible to swings in the macro-economy, it has taken a very conservative approach to its growth projections. In 2006 the company enjoyed total revenue of US \$508,000. That figure dipped in 2007 to US \$466,000 the result of postponed contracts after a new administration was elected. The projects were eventually re-instituted, and revenue picked up again in 2008.

The growth of the firm has offered value to customers, owners, workers and future generations. Customers have celebrated the efficiency of CCG, and increased work has meant an increasing market share. McKenzie, as the sole owner, has seen a good return on his original investment of sweat-equity. All profits are currently reinvested in the firm. Workers say that the training received at CCG is the best available and salaries are relatively high. The lowest paid employees make between \$25,000 and \$42,000 per year, well above GDP per capita of \$20,589.

Furthermore, McKenzie invests heavily in the future of The Bahamas: three percent of revenues are used for charitable and philanthropic measures, the firm offers internships to interested students, and it has been active in providing pro bono service in the aftermath of various natural disasters.

The COW-F Framework provides a means of assessing the sustainable growth potential of a firm.¹ Sustainable growth can only be achieved if a firm can satisfy all four of its stakeholders: customers, owners, workers, and future generations. The following table offers a summary of the value created for different stakeholder groups by CCG.

Solutions S.A. and the COW-F Model

| Stakeholder Community | Current Value Offering |
|-----------------------|---|
| Customers | <ul style="list-style-type: none"> • CCG understands local landscape and adheres closely to deadlines. • Expanding market to other nations; recently hired Caribbean business developer. • Clients give it marks as “a notch above” both local and global firms. |
| Owners | <ul style="list-style-type: none"> • All profits are reinvested into the firm. • CEO developed handbooks, employee feedback to ensure smooth operations. • No board is in operation though plans are in place. |
| Workers | <ul style="list-style-type: none"> • Workers are well paid. • Technical training and upgrading of leadership abilities sets local industry standard. • Firm reinvests 3% of total revenues toward continuing education and development courses for employees. |
| Future Generations | <ul style="list-style-type: none"> • Firm contributes 3% of revenues to charitable causes. • CEO does pro bono work in the wake of natural disasters. • CEO is active in promoting a domestic engineering industry to strengthen The Bahamas. |

¹ The COW-F Model was developed by Michael Fairbanks. It first appeared in *The Natural Advantage of Nations*, Hargroves and Smith, 2005.