
Chapter Twenty Six

Great Man - The Maestro (FSK)

HBE is an incredible Horatio Alger story. Fred Kummer started the company as a young man. Just 30 years old, Fred started a construction company with little more than a dream. His wife, June, is an architect. The two of them must have been thoroughly convinced they could make a go of it. June and Fred met at the William B. Ittner architectural firm in St. Louis. Fred was fresh from the University of Missouri at Rolla and June was a graduate of Washington University's architectural program.

FSK has been known to compare himself to Fidel Castro, as they both came into power at roughly the same time. The funny thing is, like Castro, many of the people whose lives he effects secretly hope for his overthrow or perhaps even his demise.

I didn't meet Fred until he was over 70 years of age. I was hired to head up his marketing efforts for design-build divisions in 1998 at HBE. In the three years I worked at HBE, (the first time – I did two tours at HBE), I learned a lot about FSK. In 2005 I returned to HBE as Vice President of Marketing and picked up where I left off. (Fred, still running the show, grilled me and eventually made me an offer - to return to the company.)

Fred has a unique approach to how he and his company apply design and construction as a single product bundle. The company Fred started, it seems to me - after some ups and downs in the first ten years, began to see the value of narrowly targeting the healthcare field. Throughout the 1970s and early 1980s the company really took off. (Along the way the company also built a division devoted to the design and construction of financial facilities. AND the company built a chain of owned and operated Hotels – Adam's Mark Hotels & Resorts)

The real story of Fred Kummer can hardly be told without an appreciation for what a colorful character he truly is. And

it's hard to get a good handle on it without talking to some of the various people he has placed in responsible positions within his firm. As the Maestro of the design-build process, FSK proudly installed a statue of an orchestra leader in front of his office. The Maestro is a perfect allegory for Fred himself, as he sees himself, coordinating and signaling every note from every musician in his band. (The company has over 500 employees – highly educated and technical people – architects, engineers, etc.) Indeed, those in his organization learn quickly that this is his show.

Fred is a great man. His rumpiled genius persona is not a function of age. By all accounts FSK has been the master builder and final word on every structure for as long as he's been in business. He is feared by even his highest-ranking lieutenants. That doesn't explain his personality, his success and his peculiar charm. He is an enigma. Like a rattlesnake, he hisses quietly luring you into his office. "Come in. Sit Down. Hisssssssss" and then - without a moment's notice he strikes as if for no particular provocation. It is inexplicable.

People who work for Fred cope with the trauma of the experience by sharing "Fred stories." Get two or three people who work (or have worked) for Fred Kummer together over a beer and the conversation is certain to lead to a string of insightful stories. Storytellers unload the burden (and humor) of the experiences.

Like Homer's Iliad and the Odyssey, these stories will be subject to interpretation and some distortion over time. So without delay I set out to re-tell some of the legend of FSK. If you have the inclination and the patience to wade through these parables you will begin to get a sense of the profound and the absurd. The ying/yang, the good/evil, the injustice/the very poetry of tragedy and comedy all rolled into one. They will begin to paint a picture of a complex and great man.

I bump into various current and former employees from time to time. It is almost invariable, that each chance encounter with a member of the HBE fraternity yields a Fred Story. When a

new one comes out by virtue of circumstances you are likely to hear it more than once. In fact, if you happen to show up at a going away party (for someone who managed to negotiate his or her way out of HBE) or if you show up at a HBE golf night (Thursdays between May and early September) at Creve Coeur Golf Course, you might be treated to a fresh new story. Such is the case with a recent story of the dismissal of Tom.

The story of too many armoires

Tom was an important guy to FSK. It was Tom's job to see to it that the Hotel construction initiatives were managed properly and with Fred's full approval. I can't fully explain Tom's role but it is clear that Tom was important to a cost-efficient operation of the hotels. Tom's story is a nearly perfect example of the swift justice of the system FSK routinely applies. His crime? Tom was aware of what was nothing more than an honest mistake, a clerical error. It seems that an interior designer in the HBE/Adam's Mark system filled out some paperwork improperly and ordered 418 armoires instead of 48. Now in most companies, this type of error would be handled early by someone admitting to the mistake and after admitting the error, action would be taken to correct it. Not at HBE/Adam's Mark. The "fear of Fred" factor sets in and you have a fiasco of gigantic proportions.

Tom, for whatever reason, became a part of the cover-up to a point where he authorized the delivery of 418 (instead of 48) armoires in the hope that the hotels would eventually absorb the furniture. Well FSK can't be everywhere and the logic might work because the hotels are large enough to accommodate massive orders (banquet chairs by the thousands, night tables, dressers, etc.) How does Tom get busted? FSK gets the invoice for storage and begins a small investigation (more like a witch-hunt) that explodes into the immediate firing of Tom. (The interior designer also lost her job to this SNAFU).

I know, some readers of this story are saying well "sure, he deserved to be fired because he was keeping information from

his boss that was costing the company money.” To you I say, that is why it is such a perfect example of an FSK story. It seems fair that Tom should be punished. But if you talk to the people who lived in and around this true story you begin to find out that there are plenty of conspirators and individuals equally as culpable. It just happens that Tom faced the music. He told Fred what happened too late. Tom left promptly and the next day the goons in personnel were loading his personal affects into brown boxes.

The story of three young architects

HBE is a design-build firm. What that means is that HBE accepts sole responsibility for architectural and engineering design and construction on behalf of the prospective client. Instead of assigning the architectural design duties to a separate entity (i.e. an architectural firm) and, upon completion of those plans, bidding the job to general contractors for construction HBE can, though its single-source, approach theoretically do more “value engineering.”

The company and its design-build approach is ideal for a young architect. An architect just starting out will have the opportunity to see a project from design through construction. Three such individuals were asked to meet FSK at Jetcorp, where Fred keeps his private Lear Jet. These three architects were engaged in a complex “model building” assignment and Fred wanted them to travel with him. Being young and somewhat inexperienced the three were nervous. They were scheduled to fly from St. Louis to Eagle, Colorado (just west of Vail). Departure time was set for 6AM, (“wheels up”) but when the time came only one of the three young architects managed to show up on time. The two “late” architects were carpooling together and one overslept.

In a stroke of poetic justice, our hero, Fred Kummer yelled at the guy who was on time. He kicked him off of the plane with instructions to tell his colleagues that they should be on time and that 6AM means 6AM. Furthermore, Fred commanded the prompt architect to get the keys to a company car and

collect the other two and drive the 600 miles to Eagle Colorado from St. Louis.

These three architects were convinced that once they got to Eagle, Colorado and completed their assignment that they would all be fired. Thinking they were “toast” they did as they were commanded. The road trip was, no doubt, a bonding experience for the three amigos. Much to their surprise, Fred Kummer did not take any further action and the three architects continued to work at HBE. Meanwhile the story of the late architects spread throughout HBE in just a matter of hours. It was the stuff of legends. It was months before the young architects could laugh at the experience.

Hospital Sales and HBE Sales Management 101

HBE has 9 territories for healthcare sales. These “hospital sales” guys are well compensated for success. A top earner can pull down \$500,000 in a single year. Unfortunately for most, the ability to prospect and successfully pull in business for HBE is a unique skill and balancing act. Wayne, who covered western territory was the top producer for several years running. He seemed untouchable. Jim had modest success and David has been marginal in his efforts. The fates of these three individuals only illustrate the unpredictable nature of FSK decision-making.

Privately held companies tend to be reflections of the founders. HBE is no exception. Fred Kummer will periodically find himself heading the healthcare sales team of 9 because for whatever reason, he has dismissed yet another EVP of business development. In the three years between 1998 and 2001, I saw one on the way out, one kicked out and one hired and eventually kicked out of that top position. Fred has an old fashioned model for sales and business development. He believes that sales people need to hit the road and get in front of healthcare CEOs – when they have building projects in the works, regardless of what stage of development. He believes that, given the opportunity to review existing plans, it is highly likely that his company and his interdisciplinary team will be able to find a better solution. Better for the hospital. Better for

the board and the community. Better for HBE, too. Sure, he's demonstrated it time and time again. HBE knows what to look for and how to deliver the most cost efficient "no-frills" product there is – for many the very best VALUE.

"So what are we selling?" was the challenge FSK put to the sales force in a series of high-stress meetings orchestrated by the "maestro" over a period of several months, while he was figuring out how to replace the EVP he fired suddenly. As a marketing person, I am more than happy to oblige a sort of company self-analysis and brand audit. I know such academic exercises can be very helpful for organizations to fine-tune their messaging and understand the positioning of the company for which they work. But FSK is not good at leading this type of process. He is abrupt and judgmental in his words and body language. Instead of creating a forum for openness and honesty, he creates an atmosphere of fear and anxiety.

So, as a result of FSK taking the helm on marketing direction for the company. Nine sales guys sit around listening and trying to avoid participation in the process. "What are we selling?" is not some sort of rhetorical question in the spirit of Theodore Levitt's famous Harvard Business Review piece on Marketing Myopia. Fred isn't interested in the sort of epiphany that railroads are not in the "railroad business" but rather the "transportation" business. Not at all. What Fred appears to want is a sort of monolithic force of drones – all singing the same tune. He wants the sales guys to find opportunities – and do it by reciting only the gospel according to Fred.

This Might be okay, except Fred Kummer doesn't speak in complete sentences. It seems that his mind is following several trains of thought at the same time. He often starts a sentence in one place and ends up in another place entirely. "Twenty years ago, yesterday, ya know we haven't done a very good job identifying the benefits of our approach..." No kidding – that's the way he talks!

While it seems unfair to single out just three sales guys, they are dramatic illustrations of the function as is has been designed

by FSK himself. He's only looking for "opportunity finders" to kick the door open. He doesn't want these guys to "build relationships" or do anything after the client has signed a simple one page letter of agreement to work exclusively with HBE on their particular healthcare design and construction problem. Wayne, David and Jim are just three of dozens of hospital sales guys (and they have been – with few exceptions - men) that have parked their briefcases at HBE's 11330 Olive Boulevard headquarters – The "big house on Olive Boulevard" as I like to call it.

"Wayne, when was the last time you went to Utah?" Fred challenged Wayne in a meeting. Wayne had been more successful than any other salesman over the past three years. Now Fred, in this public flogging – in front of his peers, Wayne is asked to rope-a-dope with Fred about his travel itinerary and his focus. It just wasn't a fair fight. Wayne did the best he could to defend his concentration on business outside the state of Utah but this confrontation with his top guy seemed to mask his "not so well hidden agenda" to root Wayne out and send a message to the remaining 8 hospital sales people.

In one sales meeting, Fred summarized the recent actions of Jim and Dave:

Jim presented an idea to a healthcare system involving HBE doing a master plan for a facility. He hadn't cleared this notion with Fred and the maestro wanted no part of planning without a commitment to build a facility. Fred didn't want to waste the company's energy and resources.

On the other hand, Dave had a client who was looking for information, for which Dave didn't have an answer. In Fred's judgment, Jim and Dave were both guilty of something and ripe for public humiliation. "Jim is dishonest and David is just stupid. I'll take stupid over dishonest any day," Fred reasoned aloud.

What became of Jim and Dave? The scales of Fred Kummer justice resulted in the dismissal of Jim and the retention of Dave. (Eventually Dave left as well.) Rightly or wrongly – Fred

determined that Dave was trainable and Jim was not worth any additional coaching.

Today, in addition to its status as a leading design-builder of healthcare facilities HBE is also a major force in the design-build of financial facilities (banks, credit unions, etc.) and the parent company of a chain 24 upscale hotels. (Note the company has sold all of these properties since.) The company is still run by its fearless leader. The stories of Wayne, Jim and Dave are not atypical. Very few escape the long arm of the law at HBE. The town sheriff keeps order with his quick draw and the townspeople just assume the relative prosperity and safety is attributable to the sheriff. God help you if you are a Hospital Salesman, a Financial Facilities Salesman or a General Manager of an Adam's Mark Hotel. High profile and high casualty rates in all cases. Those positions are always in the line of fire and no-one can reverse the outcome of a sheriff with an itchy trigger finger.

**Janet Reno, the Department of Justice
and the Adam's Mark Hotels & Resorts.**

A lot of people would say that the FSK, for all his faults and gruff exterior, must be doing something right. Granted, the company has seen tremendous growth for the founder. Growth, however, that cannot be closely scrutinized because the company is private. The ups and downs of the firm are not as easy to spot as a publicly traded firm that must disclose indicators about its fiscal health. Nothing paints a clearer picture of the organization, perhaps than the reaction and events surrounding the charges in December of 1999 by Janet Reno, the United States Attorney General, that Adam's Mark Hotels and Resorts have practiced discrimination at its properties.

The Adam's Mark Hotels and Resorts, in 1999 had 24 hotels in 13 states. Most were designed with large ballrooms and space ideal for group business. One of the larger properties was ideally situated in Daytona Beach.

Circumstances surrounding the Black College Reunion weekend

in Daytona Beach, Florida and black guests at the Adam's Mark Hotel in Daytona Beach who claimed the hotel discriminated against them during that busy weekend. The original complaints about treatment received during the weekend in June of 1999 – based on the facts of the case would have been dismissed a dozen times. The complaints revolved around, among other things, the hotel's practice of asking hotel guests to wear wristbands and provide deposits if they were not paying by credit card. He could have admitted that his hotel employees could have been more sensitive to these patrons and that action would be taken to assure that the greatest care would be given to guarantee equal treatment for all hotel guests in the future. Instead, digging in his heels, Fred Kummer and his hotel chain became a good target. FSK insisted that the hotel had done nothing wrong. His very stubbornness allowed a class-action time and fuel to be joined by the NAACP and eventually the Attorney General of the State of Florida and finally the United States Attorney General.

“It's hard to believe that in this day and age that a pattern of racial discrimination can still exist...the Department of Justice is investigating the Adam's Mark Hotel & Resorts chain...” The U.S. Attorney General, Janet Reno, gave FSK the equivalent of a hot foot! Reno's remarks were broadcast and rebroadcast on national television and radio. The charges had a devastating effect on business for the hotel chain. Groups stopped booking the Adam's Mark and others scrambled to back out of their earlier commitments. No group wants to hold an annual meeting at a venue that may cause protests. No meeting planners want to deal with individuals that cancel their plans based on the charges of discrimination. It was a no win situation for meeting planners. So rather than deal with the flack – they selected another hotel.

The hopelessly inarticulate FSK was stuck between a rock and a hard place. His dilemma was as twisted as the suspect being interrogated with the opening question: “Have you stopped beating your wife?”

Quickly, Fred Kummer scrambled to hire lawyers and crisis communications specialists, but it was too late. The case was too broadly known and the damage to bookings was too severe for Fred and his beleaguered hotel chain. By February 2000, HBE/Adam's Mark offered to settle the case with the Department of Justice (DoJ). The employee training and provisions of the settlement would cost upwards of \$8 Million. Fred would admit no wrongdoing, lose a ton of business from the bad publicity and never fully recover from the charges. The original case was thrown out but once the settlement was in force Fred Kummer could not back out. Even with the Republican Administration and the new U.S. Attorney General (John Ashcroft from Missouri), Fred's PR was too hot to handle. In spite of campaign contributions – John Ashcroft could not lighten the burden on FSK.

At one point Fred Kummer asked me to find him a writer who could help him tell his story. Indeed, he would have an interesting view of the injustice of the situation. Unfortunately, he abandoned the project in favor of trying to rebuild his hotel business.

Gold Mark Rewards: Show Me the Money!

Continuity programs designed to get repeat business and cultivate brand loyalty are pretty common in the hotel and travel industries. But when you only have 24 independent hotels in places as diverse as Memphis, TN; Mobile, Alabama and Indianapolis, Indiana you might have a tough time competing with much bigger chains. In addition, the promotional trend toward adding partnerships with airlines and rental car companies put Adam's Mark at a disadvantage for attracting reward-seeking frequent travelers.

Fred was determined to respond with CASH. His idea was to reward people reaching certain tiers of patronage money back in the form of a check. 3%, 4% and 5% levels could be reached within the year in which customers spending a lot of money with Adam's Mark Hotels and get money back.

The Gold Mark Rewards marketing fell to me. To make this long story short – it caused a research firm and its findings to be ignored, an advertising agency to be fired and lots of cash disbursements to customers who probably would have stayed at Adam's Mark anyway. (No way to tell – the research firm was fired and there was no interest in hiring another one to measure the program's success).

The following speech provides some insight into Fred's approach to design-build. I was intimately involved in preparing this presentation with Fred. All things considered he delivered the message uncharacteristically well.

Fred Kummer Keynote Speech to Design-Build Institute of America

October 13, 1999 at the Adam's Mark Hotel in Dallas

Good Afternoon. I'm very pleased to be here today – and talk about Design-Build the way we have practiced it for 40 years. HBE Design-Build method is not for every project and it won't work for every company, but for us it has been the key to our success. Design-Build is what my company HBE is all about.

Some people have called me a legend in the industry. What

they mean is that I am an old guy. And by that standard, I AM a legend. In fact, we've done very well over the years. We've made a great many customers happy. We've built a lot of buildings. We've built a chain of hotels-You're sitting in one now. We limit our construction activities principally in three industries: Health Care, Financial Facilities and Hotels.

So today I want to tell you about HBE, what we do, why we believe we are successful, and what our methods can mean to the construction industry. Yes, I believe it is the CONSTRUCTION industry and NOT architecture, engineering, and construction as separate disciplines.

Everything we do at HBE – and everything we've done since I started the company back in 1960 – is based on one idea. We deliver VALUE to our customers. Value means a functional building that does what our clients need at a price that allows them to build.

Value also means satisfying our clients' needs in line with their priorities.

It means working with our client to understand what his priorities are and to respond to those priorities to the fullest extent possible, given the resources available.

Every project is different. Every client's priorities are different.

If image is a top priority, perhaps a lavish lobby makes sense. If instead, a hospital needs more operating rooms, that's where the client should put his money.

It's our job to help our client fully understand the options AND cost associated with those options so that a value judgment can be made. A judgment only the client can make.

There are people who know the COST of everything, but they know the VALUE of nothing. You have to know the value of something before you can determine if it justifies its cost.

Sometimes the client is a hospital administrator who sees his facility is too old and run down. The ideal might be to abandon and replace that hospital. But that might cost \$16 million and he might not have \$16 million to make that happen. In that case, the best value for that client might be to spend \$8 million

to renovate his existing facility. It might not be ideal, but it is realistic.

Often we come into a hospital or financial facility and analyze the cost of a new building vs. alterations and additions to the existing building. It forces our clients to make judgments. And they can only make these judgments if they know the costs so they can make the value judgment for their alternatives. This is an enormous responsibility for us and for our clients.

Design-Build is only possible when you have a cohesive organization that looks at value and cost simultaneously. Cost does not necessarily equal value (a difficult idea for many), but value cannot be measured without understanding cost.

I'll bet everyone in this room has a VCR at home. You can buy a basic one for about \$200. For \$400 you can get a lot of buttons and switches. Now if you need those buttons and switches, they are a value to you. But if you don't they are just a cost.

In designing a building the same thing is true. You have to look at the cost and value of every button and switch.

Remember, you might not get what you pay for, but you will always pay for what you get.

One option might be to put a three story marble atrium in a hospital lobby. Is that the best use of resources? Maybe and maybe not. But if that atrium means that doctors and nurses don't have room to deliver care to their patients, that hospital hasn't maximized value, it has maximized cost and probably reduced value.

Forty years ago – Design-Build, as we practiced it, was used only on relatively small, less complicated projects. Some of my early ones were a donut shop, a car wash, a restaurant and a small bank – none of them – I don't think – exceeded \$100,000. An owner would go to a builder and describe his needs in terms of both cost and function. The builder would work with architects, engineers, and specialty contractors of his choosing to put together the complete package. The contractor

would price the project as a lump sum proposal. If the proposal met with the owner's approval, the project moved forward. If for any reason it did not meet with the owner's approval, the contractor bore all of the costs of developing the project to that point. This gave the contractor an incentive to control costs while providing value to the owner. Providing value to the owner is the key to success of any project – no matter what the delivery method. If you want to be successful in Design-Build business, you must develop a reputation for value and reliability.

I know – some may say our method of Design-Build is still the way smaller uncomplicated projects are done but that it won't work on bigger more complex projects. I hear you, and I know that most organizations may not be able to function the way we do. But HBE has designed and built nearly \$7 Billion worth of hospitals, financial facilities and hotels using this method and this method only. We sometimes have as much as \$3 million at risk on one project before we have a contract for a building. That is putting the risk where it belongs, with the design-build firm.

Our work is not the \$100 million projects. In fact the largest project we have done for others is in the range of \$50 million. We have built more than 1,100 projects in every state of the union except Alaska. Every one of them used a contracting method that many don't think will work with major institutional projects.

Design-Build, as we practice it, will not work for every project and every client. Clients must have confidence in their ability to make the same value judgments they make when they hire an architectural and engineering firm for design and then move to construction.

Design-Build should face up to the idea of reward for performance in creating value. Many firms are not willing or able to assume the risk this requires. The contractor must be at risk in a very significant way for a process to be called design-build. As I said a minute ago, we sometimes have as much as \$3 million at risk on a single project.

In the distant past, projects were built by someone called a Master Builder. In fact, most of the world's enduring structures were built by Master Builders. The pyramids, The Sphinx, even the Statue of Liberty were the work of Master Builders. The Master Builder was the person with the vision, skills, tools, people and the experience to get the job done.

In Design-Build you must also have a Master Builder. Design-Build is not and cannot be simply having all of the players in the construction process in the same room and saying each should do his thing. Design-Build must be lead by the Master Builder. In my judgment this is the contractor, for his is the one with the greatest up-front risk.

For a builder to function in Design-Build arena, he and his staff have to have a total understanding of all the pieces and parts of the process – and a full understanding of the cost implications of those pieces and parts. The old Master Builder may have had a saw, a plane, a hammer – the new Master Builder has architects, mechanical engineers, and concrete suppliers. He must know how to use all of those resources to deliver value to the client.

Cost-Plus does not have to produce value; it only has to produce cost. At HBE, we produce outstanding value, which is quickly and easily identified by our clients. This means we spend more time and money looking at options because it is in our economic interest to find the most effective solution and the greatest value for our clients.

At HBE, Design-Build works because everyone is involved in the process from the beginning – our clients, our architects, our engineers, and our builders. We don't want designs that can't be implemented efficiently and effectively. We design our buildings to be built, operated and used.

Early planning is critical to the success of a project. You can save big money early in the planning process. That's where millions of dollars can be saved or wasted many times tens of millions.

In developing a project, you can save tens of hundreds or

thousands of dollars and sometimes a million or two. In the building process you can save nickels and dimes by comparison. The big differences come in the early planning.

That only happens when everyone is engaged from the beginning. Design-Build is not about everyone trying to get a bigger piece of the pie. Design-build is about working together on the pie. This is where you need the leadership of the master builder. You can put the best folks in the world together in a room but without a Master Builder they won't come up with the best solution.

The Master Builder must make sure that all of the various disciplines communicate with each other. Engineers, architects, and construction people often speak different languages – and stress different values. If they don't figure out how to talk to each other and share those values – nothing gets done well.

You all remember the story of the *Tower of Babel*. I was just a kid back then, but I remember it as one of the first great design-build projects. Those people were going to build a tower to Heaven – reach right up to God. Everyone was working together – because they all spoke the same language. But God wasn't having any of THAT, thank you.

So just as the architect was suggesting that the tower needed a marble atrium, God made them all speak different languages. And that was the end of THAT project.

Design-build works only when we're all speaking the same language. Architects, engineers, and builders need to be able to share their ideas and concerns in a way that makes sense to everyone in the room. And they have to LISTEN to each other. We've all been in meetings where the guy who talked the most had the least to say. You don't learn by talking – you learn by listening. You have to listen to find out what the building's about – what the client needs – where the value is for the client and how we can maximize that value.

A Master Builder is like an orchestra conductor. It is the conductor's job to lead 100 musicians to make music but while respecting what the composer intended. In the same sense, the

Master Builder has to be a broad perspective guy who directs the efforts of his team. Of course, it has to be in the context of the client's priorities and values.

Recently, we presented designs for a nursing unit in Indiana. We designed it with a mixture of private and semi-private rooms. One physician on the board insisted that all the rooms be private. That led to a lot of discussion. That is something the board will have to decide, not us. Our job is to give them information about costs of the various options but not to make the ultimate decision. Once they've made their decision our job is to build the facility they have decided is the best value for them.

You know there are a lot of awards around in our business – and it's fun to win one now and again. But the only award that means anything to me is the one that comes from our clients, the people who use the building we build. At HBE we design buildings to win awards from our clients.

There is a real need for creativity in the design-build process. But creativity must be directed to solving real problems – not created or imagined ones. I'm talking about true creativity – looking for the best way to make a building do what it needs to do both aesthetically and functionally.

Once we know our client's needs and budget, everyone at the table is focused on finding creative practical solutions for every aspect of the project. They work as checks and balances to each other.

I think a lot of us forget what business we're in. We're in the building business. We are not in the master planning business, or the drafting business. We are in the Building business. The value for everyone involved is in the product – the finished building.

We spend the required amount on planning to maximize value; sometimes that amount may exceed any preconceived budget. That's because we consider it so important to understand the client's need and dealing with the constraints of budgets. We feel strongly that for a project to be successful the client

and we must have to reach a mutual understanding of these wants, needs and budget. That is a difficult and time-consuming process, but it's the only way a project can achieve the value we talked about earlier. This is the heart of design-build. It's all focused on the finished building.

40% of our business is for clients who have already been through a design process. In some cases they have invested a lot of money in working drawings and consulting services that do not meet their needs – nor can they afford. In many cases they cannot afford to build projects they have just paid to develop. By understanding and then concentrating on what's really important, we have often delivered a building that works for them at a cost they can afford.

It's easy to over-engineer a solution. Looking inside today's hospitals and you'll find very complicated mechanical and electrical systems. That's because we have demanding complicated needs – so many changes of air, difficult balances along with energy considerations. The tendency of engineers is to design using the latest state-of-the-art systems. But mechanical and electrical systems are almost never designed with the operators in mind - they are the people who will ultimately determine the value of the systems. Over the years, I have seen millions of dollars of abandoned systems that were too complicated or too sophisticated for the people who have run them. This does not produce value to the customer. It produces negative value. But it does produce cost.

It is the job of the leader – the Master Builder – to see that this doesn't happen. The latest state of the art equipment may be attractive from an engineering point-of-view but if the client can't operate it - it has no value, especially when a simpler and less costly system that will in the long run provide better service.

At HBE: If we don't do our job, we don't get paid. Our business is to design and build to meet clients' needs – and to be paid for our work. If we develop a project that can't be financed, we're not paid – and we don't deserve to be. If we develop a

project that doesn't meet our needs, we're not paid – and we don't deserve to be.

But you know what?

That doesn't happen.

Because we design buildings to be built.

To be a value for our client. To be a value for us.

It's not magic. It's not genius. It's surely not cost-plus.

We think hard.

We design hard.

We work hard.

It's what we do every day at HBE.

I'm proud to have you all in my building. I'm happy to have spent this time with you.

Thank you.

**The story of FSK's succession plan as reported in the
St. Louis Business Journal**

Jan. 27-Feb. 2, 2006 edition – Vol. 26 No. 22-80 pages

I was a little anxious to follow up with Fred Kummer about an article that appeared in the Friday 1/27/06 edition of the St. Louis Business Journal. The article was a result of writer Rick Desloge taking an interest in doing a story about a number of new contracts at HBE – notably the more than \$116 Million in contracts from McLaren Health Care.

After rescheduling the meeting with Desloge twice, a meeting was set for 9AM on Tuesday (1/24/06). Rick arrived and the three of us (Fred, Rick and myself) sat down at the big conference style table in Fred's office on the sixth floor.

“Rick, we ahhhh well we're doing work all over. We have projects in California and ya know I just got back from Flagstaff, Arizona where we presented to the flagship hospital in a system...we did some work in Cottonwood for them and ahhhh...” in classic Fred Kummer speak the interview was off and rambling.

“Fred, Wes suggested I ask you about McLaren,” Rick interjected.

“Yeah, well this ad here that we put together tells you about

that,” Fred responded with a print of a recent ad that includes a breakdown of contract amounts and square footages of the projects at McLaren’s hospitals in Michigan cities of Flint, Lansing, Lapeer and Bay City.”

I sensed that Rick was relieved that he had something in writing and with numbers that substantiate something of a story at least. I was relieved that Rick had shifted the focus to projects that could be mentioned an article (versus projects HBE had not yet won).

The meeting went on with friendly exchanges between Fred and Rick. Rick only periodically jotting notes. It was clear to me that Rick would rely on Fred for color and me for facts until we began to venture in uncharted waters.

“Ya know Rick, I have plans for this company to go on beyond me. It’s gonna mean ...ya know Lonnie Lange had done a number of big projects in St. Louis and Lonnie is our Chief Operating Officer.” Fred went on to mention Greg Beck, HBE’s CFO and Gary Maier, HBE VP Project Development. Fred rolled out some information about a plan to sell 15-20% to key managers of the company within the next two years. (Totally off script and not planned.)

The meeting went on for an hour and about 20 minutes. Rick pleaded with me to sit with him a bit so he could “Stitch together a story.”

Naturally I agreed. “No, Rick I don’t think the Flagstaff information is timely – we don’t have a project yet.... The Bakersfield, California project is about \$42 Million (San Joaquin Community Hospital) and is in progress... The regulators in California are “OSHDP” which stands for Office of Statewide Healthcare Planning and Development. These and a dozen other details, most of which did not make it to the final article but allowed him convince his editor that the story was of interest.

Rick Desloge called me several more times and I called him once to asked him to talk to Fred one more time. Fred was uncomfortable not having mentioned more people so in a follow

up phone call Fred gave up a few more names – not confirming anything about the ownership transition – he mentioned Fred Scott, Ed Eslinger, Jim Kee, Kurt Kruger and Jerry Patterson. It had to be getting pretty close to deadline for the Edition that hits some newsstands on Thursday evening,

This is what the St. Louis Business Journal Article Said:

Kummer selling HBE stake to top managers

By Rick Desloge rdesloge@bizjournals.com

Fred Kummer Jr., the 77-year-old founder of HBE Corp., plans to transfer 15 to 20 percent of the giant design and construction firm to its key managers within the next two years.

That will pave the way for Kummer eventually to sell the rest of HBE to a private investment firm that would keep the company operating. Creve Coeur-based HBE specializes in designing and building medical and banking facilities.

“I either had to set up a succession plan or live forever,” Kummer said.

Kummer built HBE into a \$410 million-in-revenue powerhouse, with 6,000 employees, including 400 at its Creve Coeur headquarters.

Kummer owns 100 percent of the firm, which construction industry executives said could easily be worth \$300 million. The company also owns five Adam’s Mark Hotels, which Kummer said he does not plan to sell. Kummer said he is working with HBE’s in-house attorneys on details to get HBE stock to employees but is not working with any investment banking firms.

Engineering and construction businesses can be hard to sell because the assets are the people who run the business, said Paul Schoebelen III, managing director of the Fortune Group in Clayton, an investment banking firm for private businesses. “That’s why most of these businesses end up being employee owned.”

Investment firms have offered to buy the HBE design-build business over the years, Kummer said, and for the last couple of years he has been asking himself and his management, “Can

this company survive without Fred Kummer? I hope it doesn't have to for a while."

HBE's Lonnie Lange, the company's chief operating officer, is expected to lead the employee ownership group. He joined the business last year after stints at McCarthy and Jacobs Engineering.

Gary Maier, HBE's vice president of development who has been with the company 30 years, and Greg Beck, the company's executive vice president and chief financial officer who joined the business in 2003, also will be part of the employee ownership group. Kummer said that group likely would be between five and 15 executives.

Other key HBE employees expected to be in the ownership group include Jim Kee, vice president of construction; Ed Eslinger, president of HBE's Hospital Designers; Jerry Patterson, senior vice president of national sales for HBE Financial Facilities; and Kurt Kruger, senior vice president of HBE's hospital division.

For Kummer, who is known for his hands-on control of most aspects of the business, the succession plan comes as HBE is starting 2006 with more than \$116 million in hospital construction projects from one client alone" McLaren Health Care in Flint, Mich. HBE is building four medical centers for McLaren, which operates in central Michigan.

Nearly all of HBE's work is in other parts of the country, though the financial facilities side of the business completed local projects for Anheuser-Busch Employees' Credit Union and three branches for First Community Credit Union within the past three years.

Kummer started the business with his wife, June, in 1960. The couple has three grown children, though none works for HBE. Fred Kummer III, previously an executive vice president with Adam's Mark, left the company after a dispute with his father in 2002 over how HBE was handling the Adam's Mark operations. The elder Kummer ultimately sold 19 of the hotels and retained five, including the Adam's Mark in downtown St.

Louis.

HBE has been ranked among the largest private companies in St. Louis, and last year the Business Journal placed it at No. 32 among local private firms, based on its \$385 million in 2004 revenue.

“There’s nothing else on its scale in St. Louis, and the company has had a dominant position in the health-care market for years,” said Karl Kloster, president of the Midwest division of McCarthy, the largest construction company based in St. Louis.

Shifting a company the size of HBE to a new ownership structure could require years of work, Kloster said. McCarthy, which is 65% controlled by an employee stock-ownership plan and 35 percent owned by senior managers, took 12 years to complete a transition from a family owned business to an employee-owned business. The new ownership structure at McCarthy included buying back shares held by other McCarthy family members, a step Kummer would not have to negotiate.

Alberici Constructors, the region’s second largest contracting firm, has 90 stockholders at the company, and John Alberici, its chairman, holds a majority of the voting shares.

While Kummer placed a two-year timetable on transferring 15 percent to 20 percent of HBE to key management, he does not have a time frame for selling his other 80 percent interest in the business. “If retiring is doing the things you like, I’m already doing the things I like.”