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SUPPLEMENTS
Pages 9 - 12

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EDITORIAL

Balance sheets and book value

Firms with high book value are often those with lousy collections, and that's something to avoid, Mark Zweig writes.

Mark Zweig

I have been working with owners of A/E/P and environmental firms for more than 30 years now. And I can tell you that although some have a very good understanding of their income statements, very few have any real knowledge of their balance sheets. As evidence of that there is almost universal acceptance of the axiom that having the highest book value one can have is a plus.

The balance sheet is a snapshot of your company's financial position, whereas the income statement shows your performance over a period of time. The balance sheet is a statement of "what you own vs. what you owe." Understanding your balance sheet is critical to your ability to engineer a solid financial "chassis" for your firm. Owning more but owing less sounds good. One of the most commonly held misconceptions is that a firm should try to maximize its "book value"— i.e., assets minus liabilities. While it is true that this does reduce the risk of the enterprise (definitely a good thing!) this idea, when taken too far, drives down your return on equity to the point that a rational owner asks why they are even in this business.

Most firms with "excessive" book values I see are those that have been in business a long, long time, and do a lousy job with collections. When the owners point with pride to this number, the first thing I look at is how old their ARs are. Usually, I will find an average collection period that is something like 100 plus days. So, while the firm principals are patting themselves on the back about what great conservative caretakers they are for the institution of their firms, the reality is they have a lower return on equity than they should have (normal for this business is still in the high 20s, percentage-wise). Drive up book value too high and see what happens to this number. It goes down quickly.

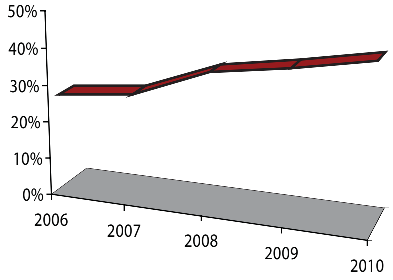
See MARK ZWEIG, page 2

The balance sheet is a statement of "what you own vs. what you owe." Understanding your balance sheet is critical to your ability to engineer a solid financial "chassis" for your firm. Owning more but owing less sounds good.

Happy New Year!

TRENDLINES

Working from home



The number of firms that make remote access available to their employees has been on a steady increase in the past few years, thus allowing more employees to work from home or while traveling. According to the 2010 *Information Technology Survey*, the median percentage of firms that provide remote-access reached a 10-year high of 43% in 2010, climbing up from 39% in 2009, 36% in 2008, and 28% in 2007. In 2002, only 19% of firms made remote access available to their employees.— *Margot Suydam, Survey Manager*

INSIDE

- TOP PLAYER: Hungry to improve the way things are done. Page 3
- TRENDS: Staying relevant when projects are on hold. Page 9
- TREND: Technology replacing lost workers. Page 9

How are you grooming your replacement?

Page 4

FIRM INDEX

Albert A. WEBB Associates 9
BCDM 5
Cardno Limited 11
Carl Walker, Inc 6
EVstudio 4
FPM Group Ltd. 6
GRAEF 5
H&A Architects & Engineers 9
JFNew 11
Jobes Henderson & Associates, Inc. 6
Lennon, Smith, Souleret Engineering, Inc. 5
Lincoln Strategies, LLC 8
Luchs Consulting Engineers, LLC/ DeCarlo & Doll Architects/Engineers 3
Luckett & Farley 5
McDonough Bolyard Peck, Inc. (MBP) 10
National Resource Technology, Inc. 9
Rose Companies, Inc 4
TowerPinkster 4, 9
UniversalPegasus International 10
WHR Architects, Inc. 10

RESOURCES

SMALL FIRM SURVEY: Are you a leader of an architecture, engineering, or environmental firm with fewer than 50 employees?

Or are you responsible for a business area in a firm of this size and type? If you answered "yes" to either of these questions, then read on!

ZweigWhite's *Small Firm Survey of Architecture, Engineering, Planning & Environmental Consulting Firms,* 2010-2011 edition, covers every area of business you're responsible for, and more!

Exclusively for firms with fewer than 50 employees, the *Small Firm Survey* is devoted to leaders and managers just like you who have responsibilities in everything from finance to marketing to human resources and information technology.

And, because we know that you're often forced to keep your firm's research budget to a minimum, we've combined data on nine different major business areas (financial performance; billing practices; project management; marketing; information technology; principals, partners & owners; policies, procedures & benefits; incentive compensation; and management compensation) into one report.

Furthermore, data are broken out by firms with one to 24 employees and those with 25 to 49 employees, so you can get the specific details on firms that really are just like yours.

For more information or to order a copy, call 1- 800-466-6275 or log on to *www.zweigwhite.com/zw-1015.aspx.*

SHINGLE HOMES: From coastal retreats to city streets, the modern shingle-style home offers residents a wide range of specialized features, including the ability to reconnect with nature, energy efficiency, and improved indoor environmental quality.

Through nearly 300 photos of 40 North American homes, *Shingle Style Architecture for the 21st Century* offers historical perspectives and modern interpretations of this unique American movement.

Be inspired by the creative ways that stone, wood, and natural light are used to provide comfortable and sustainable living quarters that accompany the natural elements of these properties.

Written by E. Ashley Rooney, *Shingle Style Architecture for the 21st Century* is available through *www.schifferbooks.com.*

A/E BUSINESS NEWS

DUBAI STILL BUILDING: A/E/P and environmental professionals working in Dubai still seem to have it good, as the Emirate continues to push the boundaries of design. According to a report in *ConstructionDigital.com*, structures are being built taller, smarter and even tout green credentials.

Among notable projects described in the article one can find the recently completed Rolex Tower, a 59-story structure designed by **Skidmore, Owings and Merrill**. Among other things, the building features a high-performance green glass, chosen specifically for its desert location.

Also coming in Dubai is the tallest residential building the world, the 122-story, 1,692-foot Pentominium tower. Designed by **Aedas**, the project includes two building sides centered around one core, according to the article.

Other relevant projects described in the article include the 108-story Burj Al Alam and the 80-story CMA tower.

SUSTAINABLE TRENDS: A new white paper from Pike Research (*www.pikeresearch.com)* identifies 10 building efficiency trends that are having a strong influence on the worldwide building industry:

- Energy codes will keep raising the bar and enforcement is catching up.
- Mandatory disclosure rules will incentivize investing in energy efficiency.
- The pace of building certification will increase, led by LEED.
- Building energy management systems are in high demand.
- The U.S. ESCO market will see moderate growth and ESCOs in Asia Pacific's developing markets will advance rapidly.
- 2011 will not yet be "The Year of the LED."
- The connection between efficient buildings and the smart grid will continue to grow.
- Financing options for building efficiency programs will continue to increase.
- PACE is a financing option struggling to overcome a roadblock of its own.
- Systemic conditions, policy choices, and practical considerations will continue to present barriers to achieving energy efficiency, but investments in training, information access, and technology will gradually overcome many of them.

MARK ZWEIG, from page 1

As for the risk aspect, how much risk is there in letting accounts receivable build up to 100 days or more? Plenty! The longer ARs sit out there, the less likely you will ever be to collect them. Clients go broke, they forgot why they owe you. Any number of bad things can happen.

I would much rather see a firm with a lower book value and fast collection period any day over one with a fat book and slow to collect. The former is just a better managed company.

This all brings up another problem: using book value as a valuation method for internal ownership transition. While I certainly realize that all firms with high book value aren't there because of bad cash flow, many are. Why should a firm with bad cash flow and too many ARs be valued higher than a firm with good cash flow that pays out excess book value to owners? Makes no sense at all!

It's time to learn about your balance sheet. You need enough book value to minimize borrowing but not so much that you drive your return on equity from the 20s or 30s into single digits or teens. And don't fool yourself if all that asset value is parked in old, risky accounts receivable.

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THE ZWEIG LETTER

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TOP PLAYER

Hungry to improve the way things are done

Making happy clients over and over again is the secret of success.

Ron Nault started his career with a jackhammer breaking concrete, so he appreciates the difficulties of construction and what it takes to improve design. In this interview, the president of **Luchs Consulting Engineers, LLC/DeCarlo & Doll Architects/Engineers** (Meriden, CT), a 32-person engineering and architectural firm that provides civil engineering and architectural/building services— and number 17 on *The Zweig Letter* 2010 Hot Firm List— talks about how exceeding expectations creates happy, and repeat clients.

The Zweig Letter: **What does it mean to be a Hot Firm?**

Ron Nault: Being a Hot Firm in 2010 indicates that even in these tough times the company is not content to just survive, but thrive. We believe this is because we have something better than average to offer and our clients continue to be happy with us— even when they are being inundated with offers by others.

TZL: **How did you get where you are today?**

RN: A combination of hard work and good luck; being honest and honorable along the way. As a company leader now, I am fortunate to have had a family upbringing that gives me the self-confidence to make a decision when needed, based on the best information available at the time, and not look back with regrets or be tortured with indecision. I love making decisions.

TZL: **Do you remember your first paid job? What did you learn then that still influences the way your work today?**

RN: My first job was for a commercial construction company and running a pneumatic jackhammer to break up a reinforced concrete slab was a great motivator to find my calling. I learned to respect the difficulty of construction and to think about how our designs can be built efficiently.

TZL: **What is it in your DNA that drives you to success? Is it audacity and risk-taking; a can-do attitude and a relentless pursuit of perfection; something else more abstract?**

RN: I am hungry every day to try to improve how things are done— by myself, others, family members, the world if I could.

TZL: **In today's difficult business climate, what does it take to succeed? Is the spectrum of failure a motivator?**

RN: We look to make our clients wildly impressed with our responsiveness as a representation of what it means to be in the service industry. Internally we don't allow resources to be wasted: time, money, etc. Sharpening the saw, so to speak.

TZL: **Where do you see this industry in 10 or 20 years? What trends are influencing it? What about your company?**

RN: This one makes my hair hurt. Hopefully we will be on our way toward achieving repeatable, sustainable project success by taking outstanding care of our clients.

TZL: **Do you hold someone as a special mentor? How did this person influence who you are?**

RN: My grandfather, a hard-working immigrant whom I spent a lot of time with while my parents worked hard to provide for our family. He taught me that every job, every job you do has your reputation at stake and you need to do it well. This applies to raking leaves, shoveling someone's driveway or designing a state highway. Good work will get noticed. He was way before newer management catch-phrase terms like "exceed expectations" but he was right. Now my kids hear it.

TZL: **What's the one trait you most admire in people and why?**

RN: Creativity— from music to art to an ad that catches my attention. It stands out in a world that is dulled by the familiar and mundane.

TZL: **Describe the most challenging thing you have ever done/the biggest challenge you have taken on outside of work?**

Ron Nault, President, Luchs Consulting Engineers.

RN: Most recently, coaching high school football this past season. It required very tight budgeting of my time so that work and family were not shorted. So, reading and sleep time was sacrificed. Football is intricate and intense (trying to get all moving parts working together) and gets my juices flowing. It was fun and rewarding as we had a successful year going 9-1. As coaches we applied business principles to football and now use football principles in business.

TZL: **What question would you ask of another Hot Firm leader?**

RN: How much longer can these difficult times last? This is my first "depression" in a management role and it hurts. I am always looking at ways to promote long-term, sustainable success with our relationships— and try to pick up ideas and suggestions.

TZL: **What lesson learned would you pass along to a recent college graduate embarking on a career in the A/E/P and environmental consulting fields?**

RN: Don't spend all your time on technical matters and expand your interests and relationships outside of your architectural/engineering groups. Learn to communicate well— verbal, written, however. You will need to convey your brilliant results and ideas to the general public in a logical, eloquent fashion to be respected.

"We look to make our clients wildly impressed with our responsiveness as a representation of what it means to be in the service industry."

MARKETING

Staying relevant when projects are on hold

From running into clients 'by accident' to e-newsletters, firms are taking proactive role in remaining on the forefront.

By DAN NAUMOVICH
Correspondent

In the A/E/P and environmental consulting industry, marketing is commonly thought of as those activities that precede selection— the advertising and networking that first introduce a firm to a particular client, and the proposals and interviews that ultimately persuade that client to hand over the keys to their next project.

But what if after being handed those keys the project doesn't start up?

Sean O'Hara, Principal, EVstudio.

"One of our biggest single marketing challenges is how do you stay in front of clients whose projects are on perpetual hold. I won't say that we have the right answer, but recognizing the challenge is important," says Sean O'Hara, principal with **EVstudio** (Denver, CO), a 22-person architecture, engineering and planning firm.

Once a project starts, ongoing marketing often takes the form of service, with the client becoming more sold on a firm with every quick response, hit deadline and cost-effective solution. When those on-the-job opportunities are delayed because of funding difficulties, an increasingly common occurrence in the flagging economy of recent years, marketing departments must be ready to step back in to maintain positive and active relationships.

"We make a real effort to stay in front of these people without becoming obnoxious— Christmas cards, invitations to lunch, occasional phone calls or e-mails. We have recently started a 'non-salesy' e-mail newsletter. Trying to stay around but not become a nuisance," O'Hara says.

A DELICATE BALANCE. A stalled project is every bit as disappointing for the client as it is for the consulting firm that was in the running, or already signed-on, to do the work. This is important to keep in mind when determining a marketing strategy that will hold the delicate line between staying in front of a client, and being a nagging reminder of a project's stalled status.

"Rather than badger them with e-mails or phone calls, you always try to find an excuse to get a hold of them. Every time you call them without an excuse they know why you're calling, and that gets frustrating for them, I know," says Christopher Herre, president of **Rose Companies, Inc.** (Kansas City, MO), a construction, architecture and development services firm.

"There's also the tried-and-true method of just stopping by some time, but I've found when people do that to me I don't like it so I don't like to do that to other people," he adds.

Herre recommends a more subtle approach, such as sending clients links to articles of interest or accidentally-on-purpose running into them at industry or other networking events. Throwing a few perks a client's way is also an effective way to earn some quality time together.

"We've done the basics, like invite them to a sporting event, to play golf, simple things like that," he says.

PROTECTING THE INVESTMENT. Maintaining an active relationship is not only important for securing a future source of revenue, but also in protecting the investment already made in a client. Firms can spend years and significant resources courting a potential client before ever being awarded any contracts. Once you have your foot in the door, you can't let a stalled project let the door close again.

"You know they still have plans to do the project when the conditions are right. You worry that your contact will leave the company or be laid off, or that some other (firm) will come along and move to the front of the line," O'Hara says.

HELP THEM. During economic downturns, those firms that will survive are those that adjust their marketing strategies to conditions. For Jennifer Boezwinkle, an unfunded project is an opportunity to demonstrate her firm's role as a partner to her clients. One of the heads of business development at **TowerPinkster** (Grand Rapids, MI), a 63-person architecture and engineering firm, Boezwinkle says that it's important to emphasize this message and how they can help to get a project back on track.

"We can help them look to funding sources they might not have considered, such as historic preservation and energy tax credits, public/private partnerships and private donations. We can help them examine other solutions, such as phased construction, a scaled back design, or temporary solutions that improve their ability to function until the initial project becomes feasible," she says.

Even with a carefully considered marketing plan and the best of intentions, there are times when clients just aren't receptive to any type of contact, leaving firms to monitor the situation from afar.

"It just seems like things have turned to where people don't want to communicate anymore. I would just assume they talk to me and say 'leave me alone' than not respond at all. For people not to respond at all, that's the frustrating part. Especially after you've spent a lot of money on them upfront," Herre says.

Among the faithful, there's even some hints of optimism that brighter days are ahead.

"Clients were unsure of moving ahead because they just weren't sure about the economy. It's starting to change a little bit now. There's still reluctance out there, but less reluctance then there was even six months ago," Herre says.

"We can help them look to funding sources they might not have considered."

STRATEGY

How are you grooming your replacement?

Firms are implementing leadership transition plans and even starting leadership academies.

By AMY SHERRILL
Editor

We all know the same person can't run a firm forever.

So how are A/E/P and environmental consulting firms preparing for the next leader while the current leader is in command?

At least one of them has created a school for future leaders.

Ed Jerdonek, president/CEO of **Luckett & Farley** (Louisville, KY), a 110-person architecture and planning firm, says that as part of the firm's five-year Master Plan: 2015 Roadmap for the Future, it has created the L&F Leadership Institute.

Ed Jerdonek, President/CEO, Luckett & Farley.

"We've recently launched our inaugural Class of 2011 that consists of 15 high-performing individuals representing every area of our organization," he says. The 15 were selected from 50 applications.

Each leadership session requires advanced preparation and is facilitated by an outside consulting organization that specializes in organizational behavior and leadership development. Class sessions are closely aligned with the firm's vision and values, which helps to underscore what's important for future leaders to build upon.

"We also expect the A/E side of our business and the design/build side of our business to pioneer ways that we can work together more effectively to create value for the company as a whole," Jerdonek says. "Our plans include selection of a new class in each subsequent year and building upon the leadership characteristics shown by each preceding class.

"We're confident that if we continue to invest in the professional development of all our employees through our in-house Leadership Institute, good things will happen for us and new leaders will reveal themselves by their individual and collective actions," he says.

PROCESS LADEN WITH TRIALS. Rich Bub, President/CEO of **GRAEF** (Milwaukee, WI), a 300-person civil engineering firm, says the business began a process to determine who would succeed him in the role of firm president during the summer of 2007.

"An internal committee was formed to determine many of the characteristics desired for the new president. The GRAEF board made a decision early on that the successor would be chosen from inside the company," he says.

In 2008, the firm sought senior principals interested in the position. Three came forward and the firm began a screening process. "An external consultant interviewed each of the candidates and to indicate to us their perceived strengths and weaknesses to assist a sub-committee of the Board in arriving at their decision," Bub says.

Following this step, each candidate was interviewed. The candidate approved by the full board was announced in the spring of 2009.

John Kissinger, the successful candidate, was given the title of chief operating officer. He will take over on Jan. 1, 2012. Kissinger is becoming more involved with day to day activities and decisions, Bub says.

"I believe this process has been very good for acceptance by the principals and staff and allows John a reasonable time to become adjusted to what is expected in his new role," he says.

OWNERSHIP TRANSITION PLAN. Daniel Gilligan, managing principal/vice president at **Lennon, Smith, Souleret Engineering, Inc.** (Coraopolis, PA), a 60-person civil engineering and surveying firm, says the business started the search for a new leader when the three founding owners were in their early- to mid-50s.

"Initial steps included attending a professional ownership transition/strategic planning seminar, which was followed by a one-on-one consulting program. This led us to develop a formal strategic business plan (SBP), which included the development of a viable ownership transition plan (OTP) as a defined goal within the SBP," Gilligan says. "The OTP development process evolved over many years, beginning with an initial OTP that was rejected for various reasons by our hand-picked candidate owners. We shelved that plan for a few years then hired a new legal/financial planning team."

The second attempt was successful and resulted in the initial offering of stock to three employees, who were judged to have "ownership potential," Gilligan says. All three are currently buying stock at prices and schedules dictated by the terms of the new shareholders and stock subscription agreements. The OTP includes incremental delegation of greater project and client responsibility, accountability, and other functions, along with taking on duties and responsibilities that were historically handled exclusively by the founding owners and managing principals.

"So far the plan is working," Gilligan says.

PERIODIC REVIEW. BCDM, a 55-person architecture and planning firm in Omaha, Nebraska, periodically reviews the future goals and intent of each principal and manager, president Jim Dennell says.

Each identifies who could replace them within the organization. They also identify the development needs of each of those members of the staff. If the principal and manager can't identify a potential replacement, the issue is noted.

Training gaps are then identified and plans are developed to reduce them, including professional and skills development, Dennell says.

The firm also develops contingency plans for the chance of premature changes, to reduce risk and define expectations.

"As a result, people have been more focused due to the transparency of people's thoughts," Dennell says. "Those things that are normally presumed are actualized and the mystery is gone. We see people assuming more responsibility comfortably."

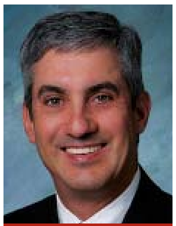
ON THE RECORD

Whatever you do, don’t run out of cash

Easy to say; harder to do. Here, some firm leaders share their strategies—including you have to make cash, not to run out of it.

In the current economy, cutting costs might have been the first strategy firms adopted to avoid running out of cash. But that’s only the start, since a sustainable business needs to increase the flow of cash coming in the door to survive. In this feature, three leaders share some of their cash strategies when we asked, “What initiatives are you undertaking to conserve cash during these difficult times?”

Gary Cudney, president, **Carl Walker, Inc.** (Kalamazoo, MI), a 90-person parking structure planning and design, studies and operations consulting, and restoration engineering firm:



Gary Cudney, President, Carl Walker, Inc.

Conserving cash has been a high priority for us considering the degree of uncertainty in the A/E industry and no clear sign of improvement anytime soon. The words from business school still ring in my head when many of our profs ended every class with the words “and remember, the most important business principle is… Don’t Run Out of Cash!” We were very proactive in implementing cash control strategies beginning at the end of 2008, when we were coming off several years of record financial results and still had a strong backlog, even though the overall economy was in a recession and the stock market had plummeted. With our biggest expenditures being related to staff, we talked with our team about the unprecedented times we were heading into and the expected impacts on our business. Raises, bonuses, and retirement benefits were reduced to save cash.

Unfortunately, some reduction in the number of personnel was also required. Also, we were fortunate in that we had recently converted from a C-Corporation to an S-Corporation, so we were able to change our method of accounting for tax purposes from accrual to cash. This change saved us several hundred thousand dollars in tax payments. We also have taken advantage of the federal Energy Policy Act of 2005 (EPACT) program where tax deductions are provided to designers of energy efficient public buildings, further reducing our tax payments well into six-figures. Other expenses have been managed to achieve firm profitability as well, helping generate positive cash flow.

Our VP of finance has led us in a very diligent AR collections process that has significantly reduced our receivables, putting additional cash in our pocket. Lastly, we have been frugal in capital expenditures, which doesn’t show much impact on accrual statements, but can quickly drain cash. However, after a couple of years, investment in some computer equipment and systems is necessary. Overall, we have been very blessed through these challenging times and are thankful for the great staff that has served our clients while personally sacrificing to preserve the financial health of the company.

James Roberts, president, **Jobes Henderson & Associates, Inc.** (Newark, OH), a 28-person civil engineering design and land surveying services firm:

James Roberts, President, Jobes Henderson & Associates, Inc.

In Ohio, all of our market sectors (transportation, municipal, land development, and survey) have been deflated the past two years. This has forced us to take all of the typical measures of cost cutting, including some layoffs, reduced working hours, salary reductions and elimination of company vehicles, reduced 401(k) match, reducing and/or staggering vacations, and several others.

What has complicated the issue even more is that our collections have also suffered during this time, so cash flow becomes even more critical. We have rolled some of our line of credit into longer term loans to open up more room on the LOC, but there is certainly a limit to how much and how often this can occur. Training and marketing are still important and remain part of our focus, but we have become much more selective and strategic in these two areas than we were in the past.

We have resisted significant reductions in our fees and we have refused to reduce our quality or level of effort on plan production.

However, we have placed a renewed emphasis on software efficiency and better project planning and communication to head off problems down the road. As the economic downturn has continued, our need to look outside the box for solutions to conserve cash has increased.

Kevin Phillips, CEO of **FPM Group Ltd.** (Ronkonkoma, NY), a 100-person full-service environmental and traditional engineering firm:

Kevin Phillips, CEO, FPM Group Ltd.

I like bad times. They are challenging. Overcoming challenges and reinventing yourself is the experiences that life is made of. At FPM in the beginning of 2010 we looked to reduce our two main costs: labor and rent. We decided on closing one office and letting go of some nonproductive personnel. This reduced our costs by 10%. However, we marketed heavily sectors that we knew were emerging and were going to be sustained. Hence, what we did was cut our costs to invest more.

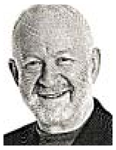
Overall, our costs remained about equal, but we ended 2010 with more backlog than ever before. I think that in good times and in bad there must always be a balance between cost cutting and future investment.

I sometimes think that the only difference between good times and bad is the emphasis you place on cutting costs vs. future investments and the firm that just cuts costs to improve the bottom line is doing itself a disservice.

FROM THE CHAIRMAN

What's relevant in 2011?

You must challenge each aspect of the design process to find out what clients really need from you.



Ed Friedrichs

As the end of this rather protracted recession plays out (we all hope), I've been questioning lots of clients— both the architecture/engineering firms to whom I consult and the companies or institutions that hire them— searching for the "North Star" to guide us into the era we're entering. And I think I've found it. It's a fairly simple idea, really, summed up by the word "relevance." As in, "Is what you're doing relevant to what your clients need and want?" Or more bluntly, do they really feel like they need you at all or do they merely accept your role as a necessary encumbrance to accomplishing their project?

"Are we going to have fun working together?," has been replaced with, "Is there really anything at all that you do that will improve my business?" In other words, they're as frustrated as you are, scared to death and grasping at straws to stay relevant to their own customers and clients. To put this idea of "relevance" simply, if you can use design to enhance the performance of their enterprise, they'll stop and listen. If not, why should they bother to spend the next moment with you when the wolves are at their door?

Embracing this idea will give you legs well into a strong global recovery. And "global" is one of the reasons. Even the smallest firms are learning that they can pursue work outside their local communities, and outside the U.S. for that matter. So what will stop very talented, bright and competitive professionals from other countries from pursuing work here? In the new competitive environment, teams of talented professionals creating grand monuments to proudly display in a vanity press edition of their work will be passed very quickly by those that demonstrate how every aspect of their design enhances business performance— not just the beauty of what they create but every unseen element that effects how the things they're designing will make their client successful.

Another wrinkle is being added to the competitive environment: firms are aggregating, through merger or acquisition, to be able to serve a client who has multiple service needs in a number of geographic areas. Small firms are creating alliances (and developing a track record of working effectively with alliance partners so they are ready and credible when a client wants testimonials) to do the same thing.

An interest in developing a deep knowledge of a client, their organization and industry, and an ability to understand how that client wants to be served, will be a singular distinguishing characteristic of a relevant firm.

Deeply observing a client's business processes, learning through personal immersion how it functions, and using your creative talents to recommend ideas about how their business can be made more effective is another defining characteristic of relevance.

What design innovations will make parishioners feel more spiritual in the chapel you're designing (so they tell their friends about their experience, expanding the congregation— and, by the way, putting more money in the offer plate)? What design elements will engage customers more deeply in the shopping experience of the store you're designing so they come back often and bring their friends along to share the experience they had? What ideas can you offer in the design of an airline terminal that will cause a passenger to chose that airline in the future over a rival serving similar routes? Have you ever thought of spending a night or two in a college dorm room after being commissioned to do the new dormitory so you can find out what students vie for?

Learning to think this way is not so difficult, but it does require focus and a change in attitude as you discuss and critique work within your office.

These principles are equally applicable to engineers. Take a simple example: the role of a mechanical engineer in this era of reduced energy, high performance, sustainably designed buildings. Are you simply sizing ducts, specifying "Energy Star" equipment and adding a few solar panels? Or have you migrated to a more collaborative role on the design team, participating in and modeling the energy and performance of the proposed building as alternative site orientations and skins are considered? Have you begun to work with the structural engineer to use the thermal mass of the building as part of your cooling strategy? This is what a migration to "relevance" looks like to client "A," the architect. But what about client "B," the entity commissioning the building? Are you helping the architect be more relevant to his client by providing energy modeling and lifecycle cost analyses to make him smarter in his discussions with the financial analysts so first cost scrutiny doesn't prevent the construction of a building that will quickly recover any differential through reduced operating costs?

This strategy for relevance requires a new vocabulary and attitude within your team. It means that you must challenge each aspect of the design as you are working to define its relevance to your client and their issues. It demands rehearsal before every client meeting to assure that every aspect of your design will go beyond assuaging your client's fears, thrilling them with how deeply you've become engaged in their business issues. This is how you'll become relevant in today's challenging economy and stay relevant in tomorrow's globally competitive world.

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GUEST SPEAKER

Want a GSA contract in 2011?

Dave Alexander and Andrew Alexander

So do many other A/E/P and environmental consulting firms. Here are 10 ways to get off to a quick start.

Firms seeking GSA Schedule Contracts for engineering, environmental, energy efficiency, and other services are facing unprecedented delays. As recently as a year-and-a-half ago, the typical elapsed time between submission of a proposal and the award of a contract was about 90 days— and even that seemed agonizingly long. These days, firms often have to wait 10 months or more for final award: and that's when the proposal is essentially perfect.

Why are the wait times so long now? Many firms that previously shunned the federal market have gained new respect for it— and believe that obtaining a GSA Schedule Contract is the easiest way to get into the arena. Some GSA units have backlogs of more than 400 proposals, and are understaffed to face the barrage. Many proposals are subpar, further clogging the pipeline.

If your firm is contemplating the pursuit of a GSA Schedule Contract, you should take care of preliminary steps right away. If you decide that GSA is for you, and you want to get the contract before the end of 2011, you will increase your chances by taking care of some of the basics ahead of time. Here are 10 actions you can take right now:

1) Check your basic listing with Dun and Bradstreet (D&B). Is it up to date? Does it correctly display your firm's name and address? How about your "doing business as" (d.b.a.) listing? Fix any errors right away. Many parts of GSA proposals are dependent on D&B data, and inaccuracies stop many proposal preparation tasks dead in their tracks.

2) Make sure that D&B's financial data is accurate. If D&B inadvertently lists inaccurate, adverse financial information about your firm, a spurious employee count, or the wrong business start date, this can wreak havoc on GSA's "responsibility" determination. Take care of these problems now. D&B often takes a long time to make corrections, and this can impose delays on the preparation of a GSA proposal.

3) Get your digital certificates. GSA now requires almost all proposals to be submitted electronically, via its "eOffer" system. To use this web-based system, you will need a GSA-approved digital certificate— essentially an electronic fingerprint. It's free, but the process requires a bit of running around. Don't let this task delay the submission of your proposal.

4) Review standard terms and conditions. Even if you haven't selected which GSA Schedule Contract to pursue, you can still get a head start on reviewing the standard terms and conditions, most of which are the same in all GSA RFPs.

5) Rough out a Vendor Response Document. These forms are almost identical across all of GSA's Schedule RFPs, with small variations. Pick one now, and figure out if there are any parts of it that give you pause, or that will require additional research.

6) Start your pricing research. Whichever GSA Schedule you decide to pursue, you will need to decide which labor categories to propose; disclose your firm's standard pricing practices, and the best hourly rates you offer for each category— your "Most Favored Customer" pricing. There will be subtle issues to resolve, and documentation to assemble. Don't let this be a bottleneck in your GSA proposal effort.

7) Vet your client references. As part of every proposal for a GSA Schedule Contract, you will need to submit a list of 10 to 20 client references to a company called Open Ratings, Inc. (ORI). Vet your references now. Firms that simply assume that the "usual gang" of clients will give good feedback to ORI do so at their own peril.

8) Get a jump on your Subcontracting Plan. For each GSA Schedule Contract that you are considering, take a look at the specific parts of the various scopes of work (the "Special Item Numbers" or "SINs") that are of potential interest. If your firm is considered "large" for any SIN, then you might as well start preparing your Small Business Subcontracting Plan now.

9) Pursue fewer SINs. Your proposal can cover as few or as many SINs as you want. There are too many cases where a firm picks a good subset of SINs in a matter of days, and then chews up an entire month debating whether to pick "just one more." You can always ask GSA to modify your contract to add SINs *after* you get the contract.

10) Do it yourself or get help— and get on with it. Many professional services firms can prepare GSA proposals independently. Using a consultant will speed up the process and can help negotiate the contract, but requires an investment. If you want to go the in-house route, develop an action plan and assign responsibilities now. If you want to use a consultant, start your search now. Don't erase the time savings that a consultant can provide with a sluggish "we'll get to it soon" process for comparing consultants and making a choice.

DAVE ALEXANDER of **Lincoln Strategies, LLC**, helps firms enter or expand within government mar-kets. His son ANDREW is an associate of the firm. Lincoln Strategies has helped many A/E/P and environmental firms pursue and win federal contracts. Contact Dave at *dave.alexander@LincStrat.com* or by phone at 978-369-1140.

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TRENDS

Technology replacing lost workers

Firms are relying on better and more efficient use of high tech to offset staff reductions during the recession.

By SUSANNAH PATTON
Correspondent

For many firms, times of slow growth mean smaller staffs and a stronger reliance on technology to improve efficiency and keep operations running smoothly.

Jennifer Bauer, human resources manager at **TowerPinkster** (Kalamazoo, MI), a 63-person architecture firm that serves the health care and higher education markets, says interactive projectors have helped her company communicate with other offices.

Jennifer Bauer, Human Resources Manager, TowerPinkster.

"Our conference rooms are equipped with smart boards which allow us to project CAD files, etc., so each office can see what the other is doing," she says. "This allows us to make changes and updates to project files in real time, enabling us to cut down on meeting and drive time since our offices are located an hour apart."

Rebecca Caudill, senior hydrogeologist and HR liaison at **National Resource Technology, Inc.** (Pewaukee, WI), a 38-person environmental consulting firm, says her company has made staffing changes, in addition to utilizing technology, to improve workflow.

"We eliminated a marketing position and combined these duties with a traditional office manager position, creating an administrative manager position," she says. "We eliminated our administrative assistant position and combined these duties with some of the traditional office manager roles to create an administrative coordinator role.

"This required increasing staff use of report templates to reduce administrative time, as well as streamlining our report production. We also increased the percentage of reports submitted solely in electronic format (PDF) without paper originals."

More people, more technology. Patricia Beasley, senior associate and human resources manager at **H&A Architects & Engineers** (Glen Allen, VA), a 185-person firm, says that while her company has actually experienced growth in the past year, it also relies more and more on technology as it grows.

H&A uses an enterprise resource planning (ERP) system to streamline project reporting and eliminates paper payroll checks by offering online viewing and self printing. The firm has also developed an applicant tracking system to enable the flow of candidates to the hiring managers "in a more orderly manner for quicker feedback," she says.

Kevin Ferguson, chief development officer at **Albert A. WEBB Associates** (Riverside, CA), a 111-person multi-disciplined civil engineering and planning firm, says the slowdown in design activity gave his company a chance to make some improvements in efficiency.

"We actually took the opportunity during this down economy to change our design platform," he says. "With fewer projects we were able to train our entire technical staff in *AutoCAD Civil 3D*, which in the long run will save us time and money."

Hiring back. Activity is beginning to pick up again, however, allowing many firms the opportunity to hire back employees that were laid-off in the height of the recession. About 40% of employers plan to hire back former employees, according to a recent survey conducted by Atlanta-based OI Partners-Career Management Resources, a global career transition and coaching firm.

Bauer says TowerPinkster was fortunate enough to bring back five team members.

"The benefits are substantial because you eliminating learning curves and orientation periods," she says. "Some of these team members come and go based on project workload needs. Both parties benefit from this mutual arrangement."

Ferguson says WEBB took the approach of keeping core staff and not letting top performers go. "To date we have only hired one former associate back and it has been successful," he says.

"As we begin to hire, we will review the expertise of former associates, but will also take the opportunity to look at others who may help to upgrade our overall staff."

Some firms have eliminated positions altogether, making it less feasible to hire back former staff members. Caudill says her firm has not hired back any employees that were laid off as a result of staffing changes.

"Hiring back these individuals would not be feasible with our strategic plan initiatives," she says.

Up next: *The Zweig Letter* explores how A/E/P and environmental consulting firms are preparing for the hiring rebound.

"We actually took the opportunity during this down economy to change our design platform. With fewer projects we were able to train our entire technical staff in *AutoCAD Civil 3D*, which in the long run will save us time and money."

ON THE MOVE

ROSS JOINS THE AIA: Ken Ross, has joined the American Institute of Architects in the newly created position of vice president, Design and Practice. Ross, who recently retired as senior principal and former president of **WHR Architects, Inc.**, a 170-person Houston-based full service architecture, interior design and technology planning firm, will serve in this position on an interim basis.

In his role at the AIA, Ross will consolidate design and practice programs, currently distributed across several departments, under a new team dedicated to contributing to the profession's design and practice body of knowledge. Under his direction, the Design and Practice team will coordinate strategic alliances, research, continuing education, and innovations in practice and project delivery to provide programs and services responsive to the challenges facing AIA members.

During his 38-year career as an architect, Ross continuously worked with nationally known firms specializing in healthcare architecture and is recognized for his expertise in the management of multi-disciplinary teams on major national and international projects.

FRAGA JOINS MBP: McDonough Bolyard Peck, Inc. (MBP) has named Robert Fraga, as the firm's regional operations manager of its Northeast Region and director of facility portfolio management services.

MBP's Northeast Region includes the company's Columbia, Philadelphia and New York branches. As the Director of Facility Portfolio Management Services, Fraga will lead the firm's facilities portfolio to include services such as management support, property/asset management, property development management and operations and maintenance management.

Fraga joins MBP after a career in the private and public sector, primarily with the federal government that included the U.S. Postal Service, GSA and Smithsonian Institute.

UNIVERSALPEGASUS HIRES COO: UniversalPegasus International (Houston, TX), an engineering, project management and construction management firm, has hired **John Harrower** as chief operating officer of the Offshore Division.

With more than 24 years experience in the engineering and construction industry, Harrower has served as senior vice president of operations, as well as roles on senior project management teams with major energy and consulting firms. He also has extensive construction management experience early in his career. While known for his exceptional track record of consistently providing world-class business performance to clients, Harrower offers extensive expertise in the development and delivery of engineered solutions.

Meanwhile, the firm hired **Matt Plautz** as client service manager for the Marcellus Shale play area in the Canonsburg, Pennsylvannia, office. Plautz brings more than 27 years of progressive client services experience, including strategic business development, engineering solutions and project management. Having worked with companies nationwide on complex environmental and engineering projects, including the oil and gas sector, he offers a wealth of expertise to the Marcellus Shale natural gas play.

HR BRIEFS

HEALTH CARE LAW ON UNEASY PATH: The new Congress could well mean gridlock for the much-debated health care law, according to policy forum sponsored by the not-for-profit Employee Benefit Research Institute.

Having regained a majority in the House and slimmed the Democrats' margin in the Senate, Republicans, who voted unanimously against the Patient Protection and Affordable Care Act (PPACA)— and made repealing the law a major midterm campaign issue— are likely to challenge the law's implementation in many ways, according to the Society for Human Resource Management.

Legislation to repeal the health care reform law is expected to be one of the first things the Republican-controlled House passes early in the 112th Congress. Still, total repeal is unlikely given that Senate Democrats would filibuster such an attempt and President Barack Obama holds veto power. And some provisions of the law that have been implemented— the expansion of dependent care coverage and a ban on pre-existing condition exclusions for individuals under age 19— have proven popular, according to the report.

In addition, Republicans are expected to use the appropriations process and procedural mechanisms to disapprove some regulations issued by the administration and to continue political pressure on the implementation of the health care reform law leading into the 2012 presidential election, according to the report.

SMALL BUSINESS OFFERING INSURANCE: While debate about the new health care laws continues, there are emerging signs of success with some of the new policies.

According to a report in the *Los Angeles Times*, major insurers around the country are reporting that a growing number of small businesses are signing up to give their workers health benefits, a sign of potential progress for the nation's health care system. An important selling point has been a tax credit that the nation's new health care law provides to companies with fewer than 25 employees and moderate-to-low pay scales to help offset the cost of providing benefits, according to the report.

For insurers, the market presents a big opportunity. Nationally, three-quarters of businesses with 10 to 24 workers offer benefits. About half of those with three to nine employees provide health plans.

TRENDS

ABI: Volatile but trending up

Leading indicator of construction activity gains almost 10 points in 2010.

JOÃO FERREIRA
Managing Editor

A recovery in the design industry has arguably taken place during 2010, with year-end statistics revealing a significant increase in design activity during the past 12 months. By year's end, the Architecture Billings Index showed a solid 10-point overall gain over the course of the year, an encouraging sign of a sustained recovery.

In November, The ABI reached its highest mark since Dec. 2007, with the leading economic indicator of construction activity hitting 52 for the month. That's almost 10 points higher than the 42.5 recorded in January and more than a three-point jump from the October score of 48.7—unfortunately also a reflection of the sector's volatility. How the shorter December index will turn out is still a mystery. This score reflects an increase in demand for design services (any score above 50 indicates an increase in billings).

"While this is heartening news, it would be premature to say the design and construction industry is out of the woods yet," says Kermit Baker, chief economist with the American Institute of Architects, which tracks activity. "We continue to hear a wide mix of business conditions, with a good deal of it still indicating flat or no demand for design services. Once we see several months in a row of increasing demand we can feel safe saying we have entered a recovery phase. Until then, we can expect continued volatility in business conditions."

As a leading economic indicator of construction activity, the ABI reflects the approximate nine to 12 months lag time between architecture billings and construction spending.

Baker predicts that over the next six months volatility will decrease, with more months with scores above 50 than below. However, don't expect the ABI to grow by 10 points over the next 12 months (the index has rarely reached 60 in its history). Baker says a steady number in the mid- to low-50s by the end of 2011 should make everybody in the industry happy.

"I do feel more optimistic about the way things are going. The trend has definitely been up in recent months," Baker says.

PECULIAR NUANCES. A closer look at some of the ABI's individual components shows unexpected behavior, with the multifamily residential sector, for example, jumping to 54.3, when it sat at 49.1 in October.

The multifamily residential sector is only about 15% of the total ABI, so Baker says it's not a key driver and doesn't have significant bearing on the overall November increase.

"I think there's a bit more volatility there," Baker says. Such increase is not sustained. "It's the residential that seems to be the volatile sector."

Meanwhile, the mixed practice sector is still suffering, with the score reaching only 45.8. Baker also called the commercial sector number "a bit discouraging," with the index dropping from 54.5 in October to 49.8 in November.

In the regional index, four regions scored above 50: Northeast (51.1), Midwest (50.9), and South (50.5). The West was still seeing a decrease in design activity, with the score at 48.7.

FUTURE STILL UNCERTAIN. On a final note, Baker reminds that the recovery has been slow and painful for the design industry, and while he expects for a more stable 2011, he's not confident about a fast upshot in activity.

"I don't know whether volatility is going to be with us for a while (but) slowness is going to be with us for a while," Baker says. "The trend is pretty unmistakable that it's improving, but not improving that quickly."

TRANSACTIONS

JFNEW JOINS CARDNO: JFNew (Walkerton, IN), a Midwest leader in ecological consulting, ecosystem restoration, and native plant nursery operations, has signed an agreement to merge with **Cardno Limited** (Brisbane, Australia), a family of companies whose integrated professional services are used to plan, design, manage, and deliver physical and social infrastructure solutions in developed and emerging economies around the world.

JFNew, with 150 employees, will become an integral contributor to **Cardno ENTRIX** (Houston, TX), a leading natural resources management and environmental consultancy. Additionally, JFNew will gain access to the parent's company comprehensive global network of 3,800 employees, corporate resources, and diverse solutions portfolio. In return, JFNew brings to the broader organization a much stronger Midwestern presence, particularly in the strategic Great Lakes Region; a multitude of complementary consulting capabilities; as well as one of the leading native plant nurseries in the U.S.

"Our goal in deciding to merge with Cardno ENTRIX and the Cardno family was threefold: to offer clients expanded services, increase our geographic reach, and create new gateways of opportunity for our talented staff. I am optimistic about the merger and realizing the full potential this combination offers," said Will Ditzler, JFNew president and CEO.

Founded more than 25 years ago, Cardno ENTRIX has become a recognized leader in natural resources management, water resources management, permitting and compliance, and environmental and natural resource liability management. Among its broad suite of offerings, the firm is highly regarded for its environmental and economic assessments and the associated restoration, rehabilitation and monitoring of impacted sites.

"Combining forces will strengthen our presence in the Great Lakes Region and across major river basins throughout the Central U.S. In addition, JFNew complements our existing consulting strength with industry leading capabilities in natural resource restoration, environmental permitting, and water resources management, all key areas of emerging growth across the U.S.," said Todd Williams, Cardno ENTRIX President.

F & A ADVISOR

What do EBITDA multiples really mean?

To understand what an EBITDA multiple is telling you, you must first understand a little bit about valuation.

Hobson Hogan

Being an investment banker, the question that I get asked the most is "What EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) multiple can I get for my firm?" My answer is always the same, "It depends," which you can imagine does not always win me friends. The problem with answering this question is that firms are not actually valued on a multiple of earnings— this is simply an expression of value, not a method for valuation. There is typically quite a bit of thought and financial modeling that goes into valuing a firm, especially in an M&A context.

To understand what an EBITDA multiple is telling you, you must first understand a little bit about valuation. At its essence, the value of a firm is based on the free cash flow that it can generate. The easiest method of valuing a firm is to simply capitalize the trailing twelve months of free cash flow using an appropriate capitalization rate, as is often done in real estate. If, for instance, a firm generates $1 million in free cash flow and you believe that an appropriate capitalization rate is 10%, then the value of the firm would be $1 million/10% = $10 million. For the record, my valuation models are more robust. However, a full explanation would quickly devolve into a dissertation.

The art of valuation comes not in dividing two numbers (which could be handled by 2nd graders), but in determining what is in the numerator and denominator.

Let's focus first on the denominator— in this case, the capitalization rate. The capitalization rate is attempting to measure what you should pay today for a stream of cash flow in the future. In our example above, we are assuming that you will generate $1 million in free cash flow in perpetuity. Being the dominator, if the capitalization rate is high, your resulting value will be low. If the capitalization rate is low, your resulting value will be high. The capitalization rate is attempting to capture what you believe your required rate of return is for purchasing that stream of cash flows. Thus, on a relative basis, the capitalization rate of cash flow coming from a A/E/P or environmental consulting firm will be higher than say cash coming from a diversified bond portfolio.

I am sure you have noticed that I have not yet begun to talk about multiples. First, we have to do some simple math. In our example above, we had a capitalization rate of 10%. Now, dividing a number by 10% is the exact same as multiplying a number by 10 (1/0.1 = 10). Thus, if you used a capitalization rate of 10%, you could also say you had a free cash flow multiple of 10. The fact is that investment bankers do not use multiples to value firms; however, they do use them to measure value relative to other firms. No matter what multiple (free cash flow, EBITDA, etc.), we use multiples to measure how firms stack up against their peers.

While I have been talking free cash flow, the markets are talking EBITDA. Why, you may ask. Free cash flow is not a number that is particularly easy to derive— you need all of your financial statements (income statement, balance sheet, statement of cash flows) for the past two years to calculate free cash flow. Since this is relatively time consuming, financial types like me began using EBITDA as a proxy for free cash flow because it can be easily calculated. In the design trade, there are usually small differences between EBITDA and free cash flow. However, in more capital intensive industries the difference can be quite large.

The first place to start to gain an understanding of EBITDA multiples is look at the tables in *The Zweig Letter* that show market multiples for the ZW15. I always pay close attention to the TEV/EBITDA column, which shows you the EBITDA multiple that the 15 firms trade. This is an excellent way to see how Wall Street is valuing firms relative to each other. Public firms tend to set the upper limits of value, since their shares are the most liquid investments and they tend to have lower costs of capital, due to their size and scope. The multiple your firm would trade will be lower than that of larger public firms. As the size of firm decreases, so will its value— not only on an absolute basis, but also on a relative basis.

One thing you must be careful about is that a firm is valued on its future cash flows, where as an EBITDA multiple is backward looking. On Wall Street, EBITDA multiples are at their highest when shares trade up in expectation of EBITDA increasing. Conversely, EBITDA multiples tend to be at their lowest after shares have tanked in expectation of EBITDA decreasing. Typically, EBITDA multiples are expressed on the last fiscal year or trailing 12 months. Buyers are really more concerned about the price they are going to pay for the next 12 months of EBITDA, so they will look primarily at the "forward" EBITDA multiple.

In my next article, we will explore reasons why EBITDA multiples tend to show such high variability in M&A transactions.

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