

EDITORIAL

Don't let things slip

Mark Zweig provides a whopping list of things firms tend to neglect after some time.

It's funny how firms in our business—many of which have been around for 20, 30, 40 or more years—can get to a certain level and then start to let things (i.e., certain business practices) slip.

There is a wide variety of reasons as to why firms do this. Staff changes and institutional knowledge is lost. Competent folks are replaced with less competent ones. Management gets too happy and complacent. Arrogance and a feeling of invincibility set in at the top. People get lazy. I could go on and on, but the bottom line is that the firm stops doing the stuff that once made it successful.

It never ceases to amaze me how long it takes for the inertia of a once well-run firm to wind down. The effects of this slippage may not be felt for years. Eventually, however, a price will be paid. Then it will take years to reverse the

It will take years to reverse the slide and regain the momentum that makes a firm enjoy consistent success.



Mark Zweig

slide and regain the momentum that makes a firm enjoy consistent success. Some firms can never regain it. Good people get the sense they are on the Titanic and the thing is going to sink, so they make a decision to start over somewhere else.

By now you are probably wondering what kind of "slippage" I am talking about. It comes in many areas. Here are some examples:

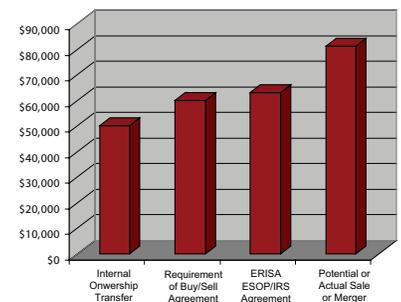
■ **Billing and collection.** It's easy to stop doing the things that lead to faster billing and collection, especially if you DON'T have a cash shortage. We see this over and over again. Draft bills are allowed to languish at the PM level. Calls to clients by accounting so many days after the bill goes out to see if it has been processed for payment stop getting made. Stop work orders aren't being enforced. Extra services agreements aren't processed when the client requests the services. All of this stuff is critical and you cannot let it slip.

■ **Maintaining the client database.** This is another area where we see slippage. While 10 or 15 years ago firms made a major push to build and maintain their CRMs so they could do direct marketing, many of those databases are now woefully out of date. Since direct marketing efforts were scaled back, first in good times (too easy to get work without it) and later in the recession (couldn't afford it), the client

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TRENDLINES

TIC value



It's no surprise that valuations conducted for external purposes tend to yield higher ratios than those conducted for internal use.

For example, according to ZweigWhite's 2011 *Valuation Survey of A/E/P & Environmental Consulting Firms*, the median TIC value per employee ratio for valuations conducted for a potential or actual sale or merger is \$81,250, which is significantly higher than for valuations performed for an internal ownership transfer (\$53,534), a buy/sell agreement between stockholders (\$60,161), or as an ERISA/ESOP/IRS requirement (\$63,183).—Margot Suydam, *Survey Manager*

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A/E BUSINESS NEWS

300,000 HOMES WEATHERIZED: U.S. Department of Energy Secretary Steven Chu announced that states and territories across the country have now weatherized more than 300,000 low-income homes under the Recovery Act, a major milestone in the Department's efforts to reduce home energy bills for families.

This means that states are now more than 50% of the way toward meeting President Obama's goal of weatherizing approximately 600,000 homes under the Recovery Act, according to a press release. The weatherization program is helping families save money on their energy bills by improving home energy efficiency with upgrades like insulation, air-sealing, and more efficient heating and cooling systems. The program has also trained a new generation of clean energy workers and is employing more than 15,000 workers nationwide. Through November, the network of state offices, local agencies, and weatherization providers has completed 300,000 homes. Of the total, more than 100,000 have been completed in just the last four months, showing the dramatically accelerated pace of weatherization under the program, according to the release.

Weatherization assistance reduces energy consumption for low-income families on average 35%, saving families on average more than \$400 on their heating and cool bills in the first year. Nationwide, the weatherization of 300,000 homes is estimated to save \$161 million in energy costs in the first year.

LAHOOD BULLISH ON TRANSPORTATION BILL: Transportation Secretary Ray LaHood said in January he was confident a multi-year bill to reauthorize the nation's surface transportation programs can be passed by Congress and signed into law by the August summer recess, according to report in *DCVelocity*.

Speaking at the SMC3 annual winter meeting in Atlanta, LaHood said he was confident that the timetable could be met even with a Republican-controlled House of Representatives and pledges of spending austerity from some members of Congress, according to the report. The administration has proposed a six-year reauthorization to fund the nation's infrastructure programs, according to the report.

The most recent surface transport reauthorization law expired on Sept. 30, 2009. The program has been operating on a series of short-term extensions since then.

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database became less critical. Plus today, everyone is mobile and doing more on their smartphones, which just makes it more likely that their personal contact directories are growing but not the company's. You have to reverse this trend and get back to building your central client and potential client list so you CAN market and don't lose the value of individuals' marketing efforts when they leave.

■ **Holding design reviews.** Sure, they take time to do and everyone is already overloaded, since the firm probably cut back on staff and is doing more with fewer people. That said, HOW is the firm going to get better at what it does if you don't have your very best people spending some quality time helping others learn what they know? It is essential and you cannot let this knowledge go without being passed down while those experts are with you. Not to mention that you simply have to do your BEST on every single job to avoid losing a client today. No one can afford to lose a good client when new ones cost more to acquire than they ever did.

■ **Having consistent PR efforts.** I really see this so often. A marketing director leaves or an outside PR contract isn't renewed. The net result is that press releases stop going out on a regular basis. The firm stops being in the media spotlight. And then some other firm eventually becomes the one that is talked about. The inevitable result over time is fewer project opportunities, fewer good people seeking employment there, and more.

■ **Sending out client gifts and thank-yous.** Budget crises, time crunches, retirement of the older folks with better manners— all of these things are factors that lead to the stoppage of practices that the firm may have once used religiously to say "thanks" and "we appreciate you" to clients. It takes a long time to feel the effects of not doing these things but the effects WILL eventually be felt.

■ **Considering new shareholders or partners.** As the last few years have been tough, some companies in our business have stopped or frozen their ownership transition plans. Of course the inevitable effect is an eventual turnover among the very people who are probably the most effective and the firm can least afford to lose— those

who are just below principal or partner level. Don't ignore your best people and the cultural expectation we have in this industry of many individuals to be owners in their firms some day.

■ **Maintaining project files.** Companies set up filing schemes on servers that work great as long as they are maintained, but eventually certain rogue principals or project managers are "too busy" to stick with the system and start doing their own thing, which of course means storing critical documents on their local hard drives, making the company vulnerable to loss of information. You cannot let it happen.

■ **Reviewing progress toward goals in the business plan or plans.** What is the point of doing these business plans if you just stick them in a drawer or put them on a shelf? Put them to use. You have to remind everyone of what they said they would do and see (publicly) if that's actually happening as you go through the year.

I could go on but by now you should have the idea. Be sure you aren't letting things slip— things that may have once helped make you great— before it is too late! ▀▀

MARK ZWEIG is the founder and CEO of ZweigWhite. Contact him with questions or comments at mzweig@zweigwhite.com.

THE ZWEIG LETTER

The voice of reason for A/E/P and environmental consulting firms.

**320 Rollston Avenue, Suite 102
Fayetteville, AR 72701**

Mark Zweig | Publisher
mzweig@zweigwhite.com

João Ferreira | Managing Editor
jferreira@zweigwhite.com

Amy Sherrill | Editor
asherrill@zweigwhite.com

Tel: 800-466-6275

Fax: 508-653-6522

E-mail: info@zweigwhite.com

Online: www.thezweigletter.com

Twitter: twitter.com/zweigwhite

Blog: zweigwhite.blogspot.com

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TOP PLAYER

Lessons on leveraging the economy

Hot Firm not discouraged by the recession.

The difficult economic conditions have also created opportunities. **Shea, Carr & Jewell, Inc.** (Olympia, WA), a 32-person engineering and planning firm has opened new offices and expanded into new geographies during the recession, helping the firm reach the No. 105 spot in *The Zweig Letter* 2010 Hot Firm List. In this interview, founding principal Perry Shea shares his thoughts on his firm's success.

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

Perry Shea: It's recognition for the hard work and commitment of our staff, and the confidence to take calculated risks to advance the firm during these challenging economic times.

TZL: How did you get where you are today?

PS: I have been fortunate to surround myself with great people who share a common vision for success. Our core values set the tone for how we operate and who we work for. I learned from an early age that your actions speak for themselves and to lead by example. This belief has created a strong work ethic within the firm and is embodied within our culture.

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

PS: I worked for a culvert fabrication plant part-time while attending college. The job provided money to help support me through school but more importantly, I developed great team building skills with the floor crews and machine operators. Each day at the plant—whether on the floor, in the fabrication area or outside loading long-haul trucks—each person was an integral part of the team and critical to achieving the daily quotas. Strong teamwork and dedication was the key component to the company's success and this experience provided me with a great foundation and work ethic that I share today.

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?



Perry Shea,
Principal,
Shea, Carr
& Jewell, Inc.

PS: I am definitely a risk taker, but with a strategic outlook that leverages the firm for growth and success. Our employees all know I have their best interests in mind when business decisions are made. The DNA of our success is our company culture and the commitment to live our core values.

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

PS: I believe a part of our success during these challenging times has been to provide regular and consistent communication with everyone in the firm. This has included regular reviews of the firm's financial performance, monthly reports of wins and sales, client assessments and testimonials, and strategic initiatives. Other key contributors have included taking risks to open new geographic offices to penetrate new clients and market areas. The current business climate has created great opportunities to leverage new market areas and to find key practice builders to support these initiatives.

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

PS: The evolution of social media is definitely taking hold on how we communicate and market our services. This trend will continue and the firms that embrace the new world of communication will prosper. I also believe that teaming and collaboration with our peers will be the norm in creating strong alliances and delivery teams for our clients. Our company embraces change and we have identified several strategic goals around communi-

cation, branding, professional growth and geographic expansion, all of which are centered on taking charge of our future and adapting to market changes in our industry.

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

PS: I learned to be a good person, advocate and lead from several instrumental people. During each point in my career I was able to align myself with a senior staff member who demonstrated the traits and values that I have embraced. I was very fortunate to work with very talented and genuine people and these experiences have helped shape the fabric of our company.

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

PS: Honesty and commitment are fundamental traits to our success. This is evidenced by knowing every employee would go to bat for one another and that the success of the team is more important than any individual accomplishment.

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

PS: The most challenging thing would have to be moving 1,500 miles with a young family to start a new job just after graduating from college. My son was only two months old and my wife and I relocated to a large metropolitan city where we did not know a soul. The personal experience and job training was invaluable and really established my confidence in taking on new opportunities.

The biggest challenge outside of work was my commitment to coach youth sports and competitive teams, including a few years at the high school level, while maintaining the unpredictable schedule of our business. Then I topped it off with spending 10 years on a school board, which was very rewarding but also challenging. ▀▀

Read the full interview with Perry Shea in *The Zweig Letter* online at www.thezweigletter.com.

NEWS

Moving from green to blue

Blue means water, and that's where the action will be.

By AMY SHERRILL
Editor

Blue is the new green in the A/E/P and environmental consulting fields, according to a green industry expert.

"A lot of stuff is happening in the water area after a few years of water being just ho-hum," says Jerry Yudelson, green development expert and author.

Firms in the A/E/P and environmental consulting industry need to rethink water in the urban environment, looking for opportunities, Yudelson says.

"In other words, now that the business case for green buildings has become well established, the next major focus of the green building movement will be to improve the water performance of green-rated and green-labeled buildings," according to a message Yudelson posted in his firm's, Yudelson Associates, web site. "Because of the business benefits of green building and the potential for major reductions in carbon dioxide emissions from buildings, we have to demand superior water performance from all green buildings, especially those with high-level certifications."

LEGISLATIVE ACTION. The new Congress is expected to consider significant cutbacks in funding for water and wastewater infrastructure and treatment systems, making it necessary for engineering firms to examine alternative approaches to acquiring water project business, according to the American Council of Engineering Companies.

Simultaneously, a reinvigorated focus on water conservation, new supply sources, and water efficiency installations throughout the U.S. are opening up major new business opportunities for consulting engineering firms, beyond the traditional water/wastewater storage, treatment, and conveyance systems, according to an ACEC news release.

As public officials are looking at new approaches and solutions with integrated water system management, which combines water conservation pricing and regulation with utilization of new water sources such as stormwater, graywater, and blackwater on site water recovery and reuse, desalination, reclaimed sewage, and massive fixture retrofits, engineers will be called upon to get more creative with their designs, Yudelson tells *The Zweig Letter*. (For more on this topic and the opportunities it presents to engineering firms, read Steve Maxwell's column on Page 8.)

Previously, the design may have been left to a plumbing engineer who focused on being up to code requirements.

"They need to examine the entire water cycle from a design standpoint," Yudelson says. "It doesn't make any sense to focus on toilets when the design could include using recovered water."

AREAS OF INTEREST. In his new book, *Dry Run: Preventing the Next Urban Water Crisis*, Yudelson examines some of these new opportunities and explains how engineers can help create a future of water abundance, and can profit from new opportunities in the water sector, with topics to include:

- Total water system analysis, planning, and building
- On site wastewater treatment, building water monitoring, control, and conservation systems
- The "water/energy" nexus that shows both promise and peril
- Stormwater management with on site recycling and reuse
- Cooling tower water management

Yudelson says engineers should explore new supply sources such as desalination; "purple pipe" systems supply-

ing treated wastewater for homes, offices, and factories; and 'virtual reservoirs' in water conservation systems.

"It's a holistic approach," he says.

Such an approach only makes sense when you think about the Earth's water supply, according to the book.

On his company's web site, Yudelson makes a persuasive case that urban water crises can be prevented, at the same time saving significant amounts of energy and contributing to a reduction in air pollution and global warming-related greenhouse gas emissions.

In his book, Yudelson also provides practical guidance for public decision-makers, citing effective strategies from a wide range of cities, counties, and metropolitan areas, both in the U.S. and Australia.

Dry Run provides a history of water use in cities and innovative case studies of the responses of seven U.S. regions to water shortages in the past five years.

The book also shows what has happened in Australia as a result of a long-term drought, unprecedented in that country's history.

The book addresses design solutions available to commercial buildings as well as homes and illuminates how water issues connect to environmental sustainability.

Yudelson also shows how water use and energy use are inextricably intertwined.

He says, "You can't solve energy issues without addressing water issues, and vice versa. They are Siamese twins, forever joined at the hip."

"For the past decade, green building designers have focused heavily on energy efficiency, but now it's time to address water issues with the same level of intensity and concern," Yudelson says on his company's web site. ▲▲

"Because of the business benefits of green building and the potential for major reductions in carbon dioxide emissions from buildings, we have to demand superior water performance from all green buildings, especially those with high-level certifications."

LEADERSHIP

Loyalty demands true stewardship

Doing great work is not enough, as some have found out during this recession.

By JOÃO FERREIRA
Managing Editor

Editor's note: This is the first of a two-part series on client loyalty. The next installment is being published in next week's issue.

Doing great work isn't good enough when it comes to client loyalty. Great job, but it could be the wrong client over time. Great job, but you didn't watch out for that client's best interests after the project was over. Great job, but you slipped on another job and your reputation suffered.



David Helpern,
President,
Helpern
Architects.

"It's very naive to think that if you've done a good job you have the loyalty of the client," says David Helpern, president of 24-person **Helpern Architects** in New York City.

Instead, all of the above variables, and more, affect the elusive goal of loyalty.

Design industry consultant Joan Capelin says a competitor with equal or better qualifications for a lower price than what you offer will likely crack the perceived loyalty veneer.

"This is a very strange time where people are very happy to just have work," Capelin says, but if they don't deliver more than just good work, they might not have a loyal client who keeps coming back.

Besides delivering satisfaction, design firms need to make their clients believe they are looking out for them, protecting their interests and their money, and helping them identify opportunities.

"People who bring opportunities to the clients know their business well enough. A client doesn't leave a design firm when it does that for them," Capelin says.

"We convinced ourselves that clients

were loyal to us because they kept using us," says Charles Sharp, a member of the Board of Directors and director of information technology at **Kaw Valley Engineering** (Junction City, KS), a 110-person civil engineering, geotechnical, environmental, surveying, steel inspection, welding inspection, construction inspection and materials testing services firm.



Charles Sharp,
IT Director and
BOD member,
Kaw Valley
Engineering.

"Ask yourself, how many of those loyal clients stayed with you after you repeatedly disappointed them? How many stayed with you when they believed they could get better service from someone else? It is no different today than it has ever been; if you want to keep your clients, make them happy," he says.

VARYING LOYALTIES. All of the above comes with the caveat that different types of clients—private, institutional, public—distort the loyalty equation. As firms that worked in the private sector and tried out the public arena during the recession have found out, in the public arena loyalty doesn't really exist. Your qualifications get the job.

One thing, however, is common across the board—especially during difficult economic times, which might explain some professional's feelings that loyalty isn't what it used to be.

"They are all affected by price pressures, and I think to some extent those affect client loyalty," Helpern says.

"Clients seem to be unsettled about something. It may be the economy. It may be they are looking for cheaper rates. It may be our competitors are giving more service than usual for the same fee because of the industry being down. It may be from what seems to be

'higher than normal' executive turnover in their organizations or (something else)," says Richard Gustaf, president and CEO of **TSP, Inc.** (Sioux Falls, SD), a 190-person architecture, engineering, interior design, and construction services firm. "We are currently focused on trying to find the 'common thread' as to why this is happening. Client loyalty is gone."

In general, Helpern says, being a good steward for your client is more likely to earn loyalty than any other measure. That means listening, trying to understand their needs, and presenting solutions "they might have not been aware of," he says.

WHAT WORKS. Perhaps the best examples of successful client loyalty come from **Manning Architects**, a 35-person firm in New Orleans.

For more than 25 years, the firm has developed loyal clients, starting with Xavier University of Louisiana, founder and President/CEO Raymond Manning's alma mater, all the way to the city of New Orleans after Hurricane Katrina.

"I think that where people tend to be loyal is to the people they trust," Manning says.

And trust occurs in many different ways.

In the case of Xavier, Manning fought hard to make sure the university received the FEMA aid it was entitled to after Katrina to complete a master plan, for example. For the neighborhood planning job with the city, it came after years of public and civic involvement.

"People see our organization not only as a design leader, but we're also very involved in the community as a public and civic leader," Manning says, often putting the interests of the community ahead of profit and growth. "Being involved in the bigger picture shows that you care." ▀▀

"Ask yourself, how many of those loyal clients stayed with you after you repeatedly disappointed them? How many stayed with you when they believed they could get better service from someone else?"

FROM THE CHAIRMAN

Where do your clients learn?

Professional organizations and societies is the answer.

I've long wondered why architects, designers, engineers, and environmental planners haven't figured out where the action is for their clients.

Almost every client I have ever worked with was an active participant in a forum that focused on his or her unique and specialized industry. It's amazing how many of these societies exist and how focused they are in addressing the needs of their constituents.

By no means am I going to give you a comprehensive digest of the overwhelming number of entities that act as support systems to your clients. That would defeat the message here: it's not for you to guess which one your client spends time with; it's up to you to ask. And to be quite specific in your questioning, learn why they chose to join that particular group, what they get out of it and whether allied professionals like you are allowed to participate.

So, what am I talking about here? Let's explore a few examples. I'll use the Urban Land Institute as my primary case since it's the one in which I was most actively involved. The others function very similarly.

ULI. This is where real estate developers of all types (commercial, industrial, retail, residential) gather to share lessons learned. Lenders, architects, planners and other allied professionals are invited to join and participate. The lenders turn out in force and are a valued resource to the development community for obvious reasons ("Show me the money").

Architects and engineers have a much smaller presence, but those who

do participate quickly figure out how to offer a talk on a subject of interest to the development process, such as the latest on LEED and sustainable design, and other similar topics. But this audience doesn't want technical solutions; they want to know if such solutions will make their project more attractive to tenants and if they will command higher rents. If you get really good at thinking this way, imagine how much more effective your client presentations will be.

If you become a full member (it's not inexpensive) you are eligible to be invited to join a council. These are medium-sized groups (around 40 members) that spend a day together sharing experiences and listening to a variety of presentations twice a year in conjunction with the ULI national meetings. After meeting with the same group for a year or two and socializing a bit between meetings, you begin to develop a very rich network of "friends in the industry" and probably a client or two.

This is where I went to school on real estate finance and learned the arcane intricacies of what it takes to put a project together. Being able to communicate with a developer in his or her language and to be conversant on a topic that is far more interesting to your developer client than design makes you much more relevant.

ULI has local councils in most major cities (and in a few less major ones as well) and can provide a great way to get an introduction to that client you're struggling to meet. They generally gather monthly and love to have programs of general interest to their membership. Have any in mind?

SCUP (SOCIETY FOR COLLEGE AND UNIVERSITY PLANNING).

How on earth could you be doing a university building and not participate in SCUP? At regional and national meetings, along with presentations on topics of general interest, university planners (often with their architect or engineer in tow) offer presentations of case studies they're particularly proud of. Can you think of a finer endorsement? Since this is a very close knit



Ed Friedrichs

group, they are much more likely to call one another to find out if anyone has had a favorable (or not so favorable) experience with your firm than they are to call the references you provided in your information packet or proposal.

CORENET (CORPORATE REAL ESTATE EXECUTIVES). Ever wonder why the regional executive of a major corporation who is also your best friend in the local Rotary chapter won't give you the time of day when it comes to his next facility? Usually, the answer is: he can't. With the consolidation of so many industries globally and with mergers leading to giant enterprises, very few regional folks have any clout these days.

Procurement of your services has become centralized and, in many cases, has been outsourced to a third party corporate real estate consultant like Jones Lang LaSalle or CB Richard Ellis. In one case, my firm (Gensler) had a substantial body of work with a particular financial institution. Over the course of a few brief years, the work, which had been spread across over a 100 firms in our service categories, was consolidated to 16 firms and then to two firms. We were exceptionally pleased to be one of the two firms left standing. But how would you have felt if you had enjoyed a decades-long relationship and suddenly found it, inexplicably, taken away?

CORENET is where you learn what the trends and directions are and glean lessons from those who are making the hiring decisions about how to stay in the game in this new economy. CORENET also has regional chapters with more frequent meetings and are also looking for "relevant" (meaning how do I save money and look good to my boss) presentations of case models.

ACI (AIRPORTS COUNCIL INTERNATIONAL). This may be the closest-knit fraternity of all. Face it: there just aren't that many airports in the country. ACI is also a politically active group, lobbying in Washington frequently on regulatory issues that are of concern to them. Heard of

See ED FRIEDRICHS, page 7

ON THE RECORD

A model of differentiation

Firm lays out strategy for what makes them unique.

Editor's note: We asked A/E/P and environmental consulting firm leaders to tell us what makes them different when everybody else claims to be just like them. Stephen Sessler, partner with **Newcomb & Boyd** (Atlanta, GA), a 166-person consulting engineering firm, offers a comprehensive explanation of what may be a fairly unique business model. While Sessler stresses that in no way does Newcomb & Boyd claim to have all the answers, or even the right answer, this approach seems to have worked for them. We believe that Newcomb & Boyd's exposition is good enough to deserve some space here.

Differentiation is one of the most complex challenges facing professional service firms. Some clients in-adviseably equate low cost with best value. Certainly being a low cost provider is one form of differentiation, and for many it works. But for the firms that choose not to compete solely on the basis of fee, how else can you differentiate your firm? Given the large number of quality design firms that espouse the same attributes, one has to narrow your goals and target those goals with a laser-like accuracy.

To better understand how we have tried to differentiate our firm, it may be helpful to know a little about us. We are a 166-person multidiscipline engineering and design firm, started in 1923, with a diversified practice, both in terms of project type and location. Our focus is on advanced technology projects. With that as a basis, listed be-

low are some of the features/practices of our firm that we believe differentiate us from other engineering firms.

1) Performance. Providing quality services is always the first and best practice a firm can do to set itself apart. We work very hard at delivering quality services.

2) Relationships. We concentrate on establishing and maintaining long-term relationships. That means not making money on every project we take, taking some projects we would rather not have, and accommodating client requests and project needs that may not make short-term business sense. But we do these things in the interest of building long-term relationships that pay dividends over time.

3) Stability. We have very low personnel turnover. We currently have 69 project managers, the position through which most of our client contact and communications flow. Of those 69 men and women, the shortest tenure with our firm is seven months and the longest tenure is 44 years. The average number of years of Newcomb & Boyd experience of all 69 project managers, excluding any experience they may have had before they joined our firm, is 15.3 years. Our project managers are very senior people who work proactively to help our clients manage each project and to succeed in their client's eyes.

4) Business model. We have a single office business model, so all of our resources and technical and production capacity are in one location (Atlanta). Yet we have done work in 49 states and 30 other countries. Our clients know



Stephen Sessler,
Partner,
Newcomb &
Boyd.

"We run a very lean operation with a flat management structure."

that they will always get the best we can provide because we are not split into different offices with different cultures and/or strengths/weaknesses.

5) Partnership. We are a general partnership with seven working partners and no managing partner. Nothing focuses your attention on quality, stability, relationships and continuous improvement like having personal liability. We have no outside or foreign owners/investors, and our clients see and work day to day with our partners.

6) Multidiscipline services. In addition to mechanical and electrical services, we also provide services in lighting, communications, acoustics, security, energy and sustainability, commissioning, audiovisual, and theatrical systems. Our clients frequently find significant benefits to having access to these specialists through our project manager.

7) Fiscally conservative. We run a very lean operation with a flat management structure. There are no partner perks, and we invest heavily in the firm and its personnel. That approach contributes to stability, employee retention, higher employee compensation, robust office infrastructure, zero debt, and high morale.

Those are some of the features we feel differentiate us from other firms. Certainly quality control programs, continuing education, specific project type experience and a host of other factors are important as well. But in the final analysis, it comes down to quality work, relationships, and reputation. ▲▲

ED FRIEDRICHS, from page 6

Homeland Security and the constant changes in protocols that affect every airport? Can you see an opportunity here to become relevant to the members of this organization? If you're interested in doing an airport, you're not

likely to be seriously considered without a strong reference from someone in this group.

These are four groups that I happen to be familiar with. There are literally dozens more for every industry and profession from health care to law firms. Without an acute focus and

participation in the forums that your clients are involved in, you're going to be left in the dust by your competitors who do. ▲▲

EDWARD FRIEDRICHS, FAIA, FIIDA, is ZweigWhite Group's chairman and the former CEO and president of Gensler. Contact him at efriedrichs@zweigwhite.com

GUEST SPEAKER

Engineering firms in water bounty

New regulation drives opportunity.

One sector of the water market that seems likely to offer great opportunity for both manufacturers and for engineering services providers in the future is the monitoring and testing area.

The old adage, “If you can’t measure it, you can’t manage it,” certainly applies in the water industry. Water treatment, storage and distribution systems depend upon an ever-increasing array of monitoring data and analytical information in order to function efficiently. The ability to monitor, track— and *understand*— the quality and quantity water is becoming increasingly critical. As new and more comprehensive regulatory controls evolve, and as new contaminant effects are better understood, testing and monitoring requirements are only going to grow. And with growth will come exploding demand for more and better analytical and engineering support and management systems.

A number of key developments have thrust the monitoring and testing business into the center of the water business:

■ Since the original passage of the Clean Water Act in the early 1960s, there has been an increasing level of public concern about water resources and water quality— and a continuing thirst for better understanding of the impact of water quality on health.

■ This growing public concern has gradually translated into broader and more extensive water quality regulation, here and around the world. Today, most developed countries have comprehensive water pollution control regulations and compliance requirements that demand extensive testing and monitoring of water at each step of the treatment and distribution process.



Steve Maxwell

■ As more regions experience intermittent droughts or more permanent water shortages, there is a growing focus on more efficient water usage and water conservation practices. In agricultural, industrial and municipal water usage, this focus on improved

conservation will require much more extensive metering of consumption and water quantity measurement.

■ There have also been dramatic advances in analytical technology. New capabilities now allow us to “see” chemicals in water at extremely low levels of concentration— parts per billion or parts per trillion. (One part per billion is roughly equal to one drop in an Olympic sized swimming pool; hence, one part per trillion is about equal to one drop in a thousand Olympic sized swimming pools.)

One area of drinking water monitoring that will receive more attention is (post-treatment plant) distribution system testing of the quality of water— monitoring the quality of the water *after* it leaves the treatment plant and runs out into the underground distribution system. Although drinking water is heavily regulated and tested at the point of discharge from the treatment plant, there is today almost no quality monitoring required once it is discharged into the distribution system.

Given emerging concerns about aging pipelines, contaminant infiltration, and chlorine disinfection byproducts, it seems likely that distribution system monitoring will be more heavily regulated in the future. Distribution system monitoring will include not only the sensors and instruments to gather information in the field, but also advanced systems to transmit and analyze data on a nearly real-time basis.

There are numerous points in the water resource management, treatment and distribution cycle, and in wastewater treatment processes, where massive amounts of data are collected on either an occasional basis, or on a continuous and real-time basis. Gathering, transmitting, and analyzing all of this information— and turning these veritable mountains of

data into meaningful and actionable intelligence upon which the utility or industrial customer can make decisions— is a huge undertaking. Systems to manage, transmit and evaluate the data are just as critical in the overall scheme of things as are the sensors and instruments that initially collect the data.

Practically every human activity involves the use of water in some respect or another and the quality and quantity of that water is of critical and growing importance. In the future, it seems inevitable that more and more information will be collected to help better understand and track all aspects of the hydrologic cycle, and our processes for collecting, treating, using and disposing of water. Increasing public awareness and better understanding of the impact of varying water quality will continuously translate into broader regulatory requirements. Broader water shortages and greater water security concerns will imply greater demand for secure management and control systems— and the requisite data and analysis. Also, because the water industry is suffering from a growing shortage of qualified personnel, all forms of automation in water monitoring and testing will emerge to enable greater efficiency and productivity. From a broader perspective, the incipient effects of global climate change will likely exacerbate many of the water challenges we already face. This will require the collection of more sophisticated environmental monitoring data at the nexus of water and weather— the impact of varying precipitation patterns upon water quality, rainfall effects on storage capacity and location, and so on. There will be great opportunities for firms that can offer monitoring and testing, and analysis and interpretation of the collected data— to help better understand, analyze and solve water challenges. ▲▲

STEVE MAXWELL is Managing Director of **TechKNOWLEDGEy Strategic Group**, a Boulder, Colorado-based management consultancy specializing in merger and acquisition advisory services, and strategic planning for the water and broader environmental industries. He can be reached at (303) 442-4800 or via e-mail at maxwell@tech-strategy.com.

G R O W T H

HR professionals find value in networking

From professional organizations to the web, they're all doing it.

By SUSANNAH SWEARINGEN
Correspondent

Networking has long been a popular buzzword in business. There are countless organizations, web sites and conferences devoted to business networking, but is their real value in participating?

Whether the purpose is to create a pool of contacts from which a professional can draw ideas, or to keep an eye on changes in the industry, most human resource managers say there is value in reaching out to and connecting with other professionals in their field.



Kimberly Filion,
Director
of Finance
and HR, JMZ
Architects and
Planners.

Kimberly Filion, director of finance and human resources at **JMZ Architects and Planners** (Glens Falls, NY), a 25-person firm, said it is imperative that she keeps up to date with all aspects of her profession.

"I attend at least two HR conferences per year and they include one national and one local," she says. "Our labor law attorneys are great at providing workshops throughout the year. That alerts us of changes in laws and statutes."

PEER SUPPORT. Filion also utilizes her connections in the industry to learn about the latest products and resources available.

"I have recently reached out to a few of my HR colleagues in our area to learn more about HR outsourcing software that will help us with the payroll software product we use," she says. "It's important to research as much as I can before any major purchases."

Sue Slade, human resources manager at **Spicer Group, Inc.** (Saginaw, MI),

a 150-person engineering, surveying and planning firm, looks to other HR professionals when implementing anything new.

"For me, gathering information from other HR people in our industry is important," she says. "It gives us a benchmark to start from when beginning something new: a new policy, new benefit, new ideas."

"If our company wants to try something new, and I know I can network with an HR manager to learn the pros and cons they've encountered prior to starting the project. I call it 'using other people's brains'."

Slade gets inquiries from HR professionals in return.

"Often I'll get e-mails from fellow HR managers asking how we handle policies and procedures," she says. "I share anything that is not a 'trade secret' as I know that many of these people work for our competitor companies."

GROUPS ON. There are several tools for human resource managers to network and share information, including industry organizations such as the Society for Human Resource Management. SHRM provides job listings, conferences and webcasts for HR professionals.

The national organization boasts hundreds of local chapters, where HR professionals can meet, discuss ideas and share information.

Another valuable tool, and one that has been steadily gaining ground as the key resource for HR professionals, is social media.

Ken Pinnock, a SHRM member and director of Arizona operations for Mountain States Employers Council, says social media tools such as Facebook and Twitter were primarily used as recruiting tools by HR professionals. They have evolved, he says, into avenues by which professionals can communicate about their organizations.

"Social media has become very active and there are new HR groups that are coming up, such as *HRevolution*," Pinnock says.

The goal of *HRevolution.org* is to encourage HR professionals to use social media to come together and talk about problems facing businesses today.

"They're really trying to provide avenues for HR people to get more innovative and more creative in how they think about the industry," he says.

Pinnock says HR professionals have always been heavily involved in networking based around hiring. They network to find out what professionals are out there looking for work and what positions various companies are looking to fill.

But there is a missed opportunity for HR professionals to network in terms of growing their business or improving their operational strategies.

"We have a really good feel for what's going on in our organization because we touch so many parts of it," Pinnock says. "We're in a perfect position to network for business development."

HR professionals have many opportunities to share information regarding health care reform, layoffs, and other day-to-day operational ideas.

Pinnock says professionals can benefit by talking to each other about methods or techniques they use to retain employees when the average merit increase is at 2% or lower.

There is also value in networking not just with other HR professionals, but with other leaders within organizations.

Pinnock encourages HR managers to take advantage of general business groups, such as local chambers of commerce or hospital associations, in order to gain exposure to other types of leaders and broaden their perspectives.

Networking is also valuable on a personal level. In light of the economy, the HR industry is very volatile and companies may be looking at outsourcing these departments, Pinnock says.

"It's really important as a business person to be out and about and building relationships," he says. "In this day, there are so many highly qualified people available. The ones who have more connections will have a leg up." ▲▲

TOPICS

What to watch for in global operations

HR professional at major architecture firm explains some of the perils.

Doing business overseas can appear attractive, but what circumstances, employee-wise, do you have to look out for?

Tina Reidell, regional operations officer and principal for the Northwest and Asia regions at **Gensler**, a global architecture firm headquartered in San Francisco with more than 2,000 employees, says firms may want to talk to many different consultants initially because the first answer is not always the final answer. In this interview she explains some of the challenges in going global, from the HR perspective.

The Zweig Letter: Generally, what do businesses need to consider (from an HR perspective) when doing business internationally?



Tina Reidell, Regional Operations Officer and Principal for the Northwest and Asia regions, Gensler.

Tina Reidell: First of all, the labor laws are different in every country. Requirements based on whether there's an exempt status— which, more often than not, there isn't— and other labor law differences will impact figuring out overtime and payments and how to comply with those types of rules and laws (such as holiday pay and sick leave rules).

There's just a whole variety of benefits/general labor laws that are very different from what we are used to in the U.S. As a result, many of those laws can add up to a lot of additional labor and benefits costs that firms might not be used to carrying.

We at Gensler, as a global firm, try as much as we can to maintain some type of parity between what our U.S. overall benefits plans are compared to whatever we are offering to employees in other countries, while at the same time being respectful of what the local laws and customs require. (It) can be kind of

complex trying to work through that. Also, we want to ensure that when we transfer employees around the world, they feel like they are receiving the same benefits or as equal as we can make them.

TZL: You mentioned customs. How do you get information regarding social and religious holidays?

TR: We usually end up doing a lot of research whenever we go into another country. We've found that we can talk to three different consultants and a couple different law firms and they will all give different answers in terms of requirements for paid holidays and PTO policies. And the reason is, just like in the U.S., if somebody were to look on a web site to find out what the paid holidays are in the U.S., government employees may get off Presidents' Day, Veterans Day, and Flag Day, but most corporate business don't give all those holidays off. (We need to) discern what holidays really are customary within that country that employers typically offer up as paid days off. We ran into a problem, initially, when we started our first international office in Tokyo several years ago. We were somewhat too generous, which made it difficult for us to make that office as profitable as we would like because of the fact that we made assumptions of what we were told initially in terms of what was required by law. We did more research years later, and we found out that what we were offering up was overly generous compared to what was customary in the market.

TZL: What other issues does a business have to be sensitive to?

TR: Depending on the country, especially in the markets where the local labor rates are much lower than what the U.S. labor costs are, we can sometimes run into a dual compensation system, to some extent, where you've got both

local employees and transferred employees. In China, where we want to be able to work within what the local salaries typically are— and that's what our clients are expecting to see— the cost associated with those rates passed through to them. But, at the same time, when we have employees that we transfer there in order to train our staff and to provide some of the design experience that our clients also want as part of doing business with a western firm, there can be salary differentials in terms of how you work through those compensations. The standards of living are different too. People who transfer and move their families are going to expect a certain lifestyle.

TZL: What other important tips would you provide a firm thinking about doing business internationally?

TR: There can just be big impacts in terms of the laws. There can be a high cost of exit if somebody does want to set up an operation and then chose to leave. As part of their laws (some countries) have very employee-favorable required severance packages of up to a year (in some cases). Fortunately, we've only shut down one office, which we are now reopening. Plan your exit strategy know that there can be substantial costs not only to enter into a market but obviously to exit as well.

TZL: Are there any nuances that may be helpful for businesses to know about?

TR: When we hire local staff in China, for instance, as well as other countries, once they get one or two years' experience working for a western firm they become much more marketable. We've had higher than usual turnover. They can now obtain a lot more money in the market. It's not ideal. As a whole we've maintained a pretty low turnover rate. ▲▲

“Depending on the country, especially in the markets where the local labor rates are much lower than what the U.S. labor costs are, we can sometimes run into a dual compensation system.”

BANKING

Firms keeping banks close to heart

Design firms reluctant to change institutions, but often maintain a second account.

By AMY SHERRILL
Editor

Most A/E/P and environmental consulting firms are not looking for a new banking relationship, according to a recent ZweigWhite survey performed for an upcoming publication.

In these uncertain financial times, 58.8% of respondents are sticking with their current banker. Another 14.7% were somewhat unlikely to look for a change and 5.9% were a little unlikely to look for a change.

"I would not sever my relationship with our current bank, but it may be beneficial to my company to have another relationship," one respondent said.

Another had this to say, "We've been with the same bank for 20 years, the relationship is important, and we would not want to have to rebuild that somewhere else."

On the other side of the spectrum, 10.3% of respondents were a little likely to search for a new bank, 5.9% were somewhat likely, and 2.9% were very likely.

"We changed banks one year ago due to impersonal service and now use a smaller local bank," said a respondent.

Some firms shopped around, but ultimately found they were getting a good deal from their existing institution.

"We just concluded a search and opted to stay with our present bank, principally on the basis of prior relationship and competitive rates. Had we not interviewed other banks we would not necessarily have known we had a good deal," according to one A/E/P firm.

The majority of respondents (60.3%) also said they do business with more than one bank while 39.7% said they do not, according to the survey.

"We have some real estate loans with

other banks and some branch office checking accounts," one respondent said.

Another respondent said, "We have a primary bank relationship, but we maintain a second account in the event of unexpected staff changes."

NO FINANCING WORRIES. Most respondents didn't find it applicable or were not very concerned about financing their company's office building with the same bank that holds their working capital revolving credit, according to the survey.

Of the respondents, 5.9% were very concerned about the risk, while 11.8% were somewhat concerned; 4.4% were slightly concerned and 50% found the question not applicable or were neutral about the matter.

"I believe very strongly that as firms get larger they should not be exposed to a single financial institution," one respondent said.

Another said, "We do not own, nor desire to own, our facilities. Leasing gives us more flexibility, so this question is not an issue for us."

Another 1.5% were slightly unconcerned about the risk while 10.3% were somewhat unconcerned. A final 16.2% were completely unconcerned about the risk.

"Having the real estate and the line of credit with the same bank has worked in our favor," one respondent said.

Another said, "We just financed a new building with our existing bank. Other banks that proposed wanted the 'relationship' to go with the loan. I had them put a value on acquiring that relationship rather than just a mortgage transaction. I also checked with others as to whether they thought it would be

better to separate the transaction. (We received) pretty consistent feedback that the total relationship works in our favor. We did get competitive proposals, though."

The entire survey, along with its results and other tools for moving your firm toward relationship banking, are included in ZweigWhite's new book *Managing Your Banking Relationship*, which is scheduled to be released later this month.

Information found in the book will enable architecture, engineering, planning, and environmental consulting firms, as well as many other business types, the financial tools they need for success in the new era of relationship banking post-2008.

"This book hopes to change banking obstacles into banking opportunities," says Alan Ostner, a publications editor at ZweigWhite. "By offering a few tools moving you toward relationship banking, we hope to give you an edge toward profitability and maybe even lower your stress toward banks."

Through all the uncertainty in the financial sector, there are still tried and true methods of creating and growing a lasting relationship with your bank in the post-2008 banking world, Ostner says.

The applicant still needs a good credit history.

A personal contact at the bank is still a bonus for anyone seeking a business loan today. And the borrower's banking relationship must be handled by the firm leader in the same manner as it has been since the last economic crisis of the 1930s: with attention to detail and careful consideration of the requirements and expectations of the bank. ▀▀

"We just concluded a search and opted to stay with our present bank, principally on the basis of prior relationship and competitive rates. Had we not interviewed other banks we would not necessarily have known we had a good deal."

F & A A D V I S O R

Multiple personalities

EBITDA can be measured in different ways, and confusion over it sometimes leads us to wonder if we are speaking the same language.

I often hear people make statements like “I heard that XYZ Corp was bought for 5.0x,” or “I had a broker tell me my business is worth 5x EBITDA.” My response is “5x what? Is that adjusted EBITDA, is it forward EBITDA, is it trailing 12 months EBITDA? 5.0x what?” I usually do not get any answers in return because most people do not know. There is no standard way of expressing EBITDA multiples. Finance guys like me use them; however, we tend to use them differently and that leads to confusion. As I stated in my previous article (Issue 893, Jan. 10), EBITDA multipliers are not a method of valuation. They are more of an expression of value that is used primarily to compare a transaction to publically traded firms and other completed M&A transactions.

A perfect case in point is **Willbros Group’s** acquisition of **InfrastruX**. In March of last year, Willbros paid over \$878 million for InfrastruX, which had trailing 12 months’ (TTM) EBITDA of \$16 million. That is an EBITDA multiple of approximately 54.0x TTM EBITDA, which was significantly higher than the approximately 4.0x Willbros was trading for at the time. On the surface, it appears that Willbros overpaid for InfrastruX. However, the EBITDA multiple does not tell the whole story. Remember that EBITDA multiples are backward looking; they take the value of the enterprise value of the deal (value of the equity and debt) and divides it by the TTM EBITDA. The thing that we do not know is what InfrastruX’s next 12 months was going



Hobson Hogan

to look like after the deal. Based on the economics of the deal, it is likely that InfrastruX’s future was brighter than its immediate past.

As an investment banker, I always make sure that my clients are viewed in the

best possible light in an acquisition. In this transaction, InfrastruX’s investment bankers no doubt painted the firm in the best possible light. In preparing a firm for sale, extraordinary costs and costs that will not survive a transaction are added back to the firm’s earnings. “Addbacks” are common in M&A, however, they are not handled consistently in reporting. Often a firm’s owner will only speak about multiples of his reported EBITDA, not the adjusted EBITDA. You can ask me the multiple of a deal I worked on and get a different (and usually lower) multiple than you would hear from the owner. (As an aside— my experience is that EBITDA multiples are like fish stories, they tend to get bigger as the night wears on and more drinks are consumed.) Seasoned deal makers think in terms of adjusted EBITDA; however, a business operator is more likely to use the non-adjusted EBITDA as basis for his multiple, resulting in a higher multiple, even though the economics of the deal have not changed.

If a firm is coming out of a period of poor performance, but has turned the corner, typically I will use the forward EBITDA multiples as a basis of comparison, rather than the TTM values. The reason is that multiples are best expressed in terms of the sustainable earnings of the firm. How a firm will perform in the future can have an impact on the deal multiple that is reported. To illustrate this, let’s look at two hypothetical deals (table 1). Both deals involve the same TTM EBITDA; the only difference is the future of their earnings and the purchase price.

If you were analyzing this deal based on TTM EBITDA, you would say that clearly the buyer in Deal A got the better contract because they only paid 5x EBITDA for the business. The problem with that statement is that a buyer is buying the future, not the

	Deal A	Deal B
Enterprise Value	\$10 MM	\$20 MM
TTM EBITDA	\$2 MM	\$2 MM
Forward EBITDA	\$1 MM	\$4 MM
TTM EBITDA Multiple	5.0x	10.0x
Forward EBITDA	10.0x	5.0x

Table 1

past. The buyer in Deal A paid 5.0x for a declining business, whereas the buyer in Deal B was able to buy an improving business for 5.0x.

The above example clearly shows the dangers of simply using a multiplier to value your business. If your business has stable earnings and you use multiples from deals in an environment of strong growth or decline, you are likely to produce misleading values. So where does this leave us? The fact is that every firm, every deal, is unique and has to be valued as such. There are no shortcuts to good old fashioned financial modeling. Of course, the answers will be compared to other deals and the public markets, but only as a basis of evaluation to ensure that your modeling assumptions are sound. ■■■

W. HOBSON HOGAN is a ZweigWhite principal specializing in mergers and acquisitions, finance and strategic planning. Contact him at hhogan@zweigwhite.com.

RESOURCES

KATRINA REVIEW: *Multidisciplinary Assessment of Critical Facility Response to Natural Disasters, The Case of Hurricane Katrina* assesses the performance of essential buildings in New Orleans during and after Hurricane Katrina. Essential buildings are expected to be minimally damaged and remain operational during extreme events. Yet of five facilities inspected, only one performed successfully as a storm shelter during Hurricane Katrina. What happened?

This report presents the findings of a team from the American Society of Civil Engineers’ Architectural Engineering Institute whose members examined five facilities in New Orleans on a single day in December 2005.

Edited by Adam Hapij, the report is available at www.asce.org/Product.aspx?id=12884903115.