

SURVEY

Survey reveals top practice challenges for firms

Fee competition, group health insurance costs among priority concerns.

By JULIE KYLE
Editor

The recent economic downturn has badly bruised, but not broken, the A/E/P and environmental industry. Hope is on the horizon, as *ZweigWhite's 2011 Financial Performance Survey of Architecture, Engineering, Planning, & Environmental Consulting Firms* reflects several pieces of information indicating that "the bleeding has stopped, at least from a revenue standpoint," says Tracey Jeffers, valuation consultant with *ZweigWhite*.

The third-party interest bearing debt to equity ratio remains at a six-year low of 0.1 to 1. The ratio is a measure of a firm's ability to meet its long-term obligations to financial institutions; this is a leverage ratio—the lower it is the better a firm's ability to borrow. In 2004, the median third-party interest bearing debt to equity ratio was 0.3 to 1, and then dropped to 0.2 to 1 in 2005, where it stayed for the next four years (2005-2009). And then in 2010, it dropped to 0.1 to 1, where it remains this year.

The survey also contains data on operating expenses, personnel costs, finance and accounting staff, growth and profit projections, staff turnover, and more. This year, *ZweigWhite* has partnered with the American Council of Engineering Companies to update this survey, which was taken from a select group of 168 firms.

PRICING PRESENTS A CHALLENGE.

Respondents to the survey indicated the top practice challenge for firm leaders is fee competition, followed by accommodating growth, the commoditization of engineering services, domestic competition, and internal finances.

During the downturn, many firms may have struggled with the temptation to reduce fees to win work. But June Jewell, president of **Acumen Ad-**

visors (Reston, VA), a software vendor for the A/E/P industry, urges firm leaders not to sell themselves short.

"Losing money on a project is bad for the company and sets a bad pattern with a client for the future. It also tends to hurt the client/consultant relationship."

BHC RHODES (Overland Park, KS), a 73-person architecture and engineering firm, took part in the survey. Kevin Honomichl, president, agrees that fee competition is a top challenge, and is not healthy for the industry in the long run.

"It is troubling that it ranks so highly in a national survey, but is not surprising," he says.

"The limited opportunity for projects has caused many firms to use price as a way to secure work. Unfortunately, all we are doing is beating each other up."

As customers face economic pressures, "they are abandoning known relationships because 'any engineer can do the job, right?'"

Honomichl feels using low fees as a way to secure work may create some short-term relief for revenue or cash flow, but it is not sustainable in the cost structure that A/E/P businesses must support. "Offering reduced fees only reduces the perception of value of our services by our customers, and creates a new expectation for the going rate for services," he says.

Honomichl feels fee competition is also aggravating one of the other top challenges: the commoditization of engineering services.

One senior project manager at a large architecture and engineering firm thinks that fee competition may not be the problem so much as there are not enough projects and there is an uneven geographic distribution of projects in the U.S. infrastructure pipeline.

THE NEXT GENERATION MAY SUFFER.

One concern is whether the

A/E/P industry will have jobs for new and recent graduates of colleges and universities.

The anonymous source wonders, "When the economy finally fully recovers and A/E/P firms are hiring in more significant numbers, will we have potentially lost a chance to hire from and train this cohort of young professionals during these current lean times, and possibly lost some of this talent to other companies or sectors of the economy?"

This same trend happened during the early '90s when technology attracted a large number of professionals away from the A/E/P industry who never returned, says Stephen Hinton, managing director for Hinton Human Capital, who has recruited for the industry for more than 13 years.

OTHER CONCERNS. The top five economic, political, or social trends that will affect the A/E/P industry over the next three years are the national economy, the global economy, followed by government involvement, health care costs, and education/training.

David Singer is an insurance professional who specializes in helping architecture, engineering, and environmental consulting firms with their insurance needs.

"While health insurance increase every year, firms are more worried and stressed out than in the past because unlike previous years, they feel they are losing the ability to control these increased costs to outside forces that are now going to tell them what coverage they must buy— whether needed or not— and what they have to pay— whether or not they can afford it. And on top of that, there are fewer places to buy it from, which negatively impacts the firms' ability (or their broker's ability) to competitively shop."

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