PSMJ | Resources, Inc.®

2022 A|E|C GROWTH BRIEFING:

Perfect Vision

Helping A/E/C Executives Sharpen Strategic Plan Focus

THE BIG QUESTION:
Does Your Firm *Need* a Strategic Plan?

TAKE THE QUIZ:
Figure Out If Your Firm Needs A Strategic Plan Now!

WHAT MAKES A GREAT STRATEGY?
Strategic Planning FAQs

2022 IS HERE:
What's Your Firm's Growth Strategy?

PRIVATE EQUITY PUSHING HARDER INTO A/E/C...
Exit Strategies May Need Revision

ALSO

FACILITATING YOUR OWN STRATEGIC PLAN? DON'T MAKE THIS MISTAKE!

PLUS MUCH MORE

www.psmj.com/strategic

Dear A/E/C Firm Leader:

Will the current growth environment continue unabated? Or will economic and political upheaval lead to pullback and reallocation of investment resources? Fact is, there's never been a better time to ask and seek answers to the fundamental questions that drive the long-term success of your firm:

- *"Who will be running our firm five years from now? Twenty years from now?"*
- *"How do we move the needle on getting the fees we deserve as commoditization pressures mount?"*
- *"How can we position ourselves to take advantage of new markets, trends, and profit opportunities arising from the Post-COVID economic recovery?"*
- *"What does growth look like in an increasingly uncertain and volatile economic environment?"*

We see so many well-meaning A/E/C leadership teams miss out on significant growth simply because good strategic planning took a back seat to near-term operational issues such as project deadlines, client presentations, and so on. I get that—right now there's a fire to be put out everywhere you look.

To forge ahead through uncertainty, I encourage you to take a moment and stop. Step aside from the sea of urgent emails and project work to look at the big picture and map out a course of action to secure lasting success... in any economy.

Our team of A/E/C strategic planning experts curated this collection of tips and strategies to help you get started doing just that. To be sure, no strategic plan is ever perfect. But having no plan at all is never an alternative. What does your strategic plan look like, and will it ensure you come through our current challenges and emerge stronger?

We are quickly filling our available strategic planning consulting slots, as more and more A/E/C firms turn to our experts for help in realigning all business functions and operations with a radically changed world. If you'd like to reserve one, or simply learn more about how PSMJ Resources can help you not just survive but thrive in the coming months and years, let's talk.

Susan LeComte
Head of Client Services
PSMJ Resources, Inc.

P.S. If you would like to discuss some of your specific growth and planning challenges with one of our A/E/C strategic planning experts, please contact me at 617.965.0055 or at *slecomte@psmj.com*. I'd be happy to arrange a call. No charge. Completely confidential.

WHAT'S **INSIDE:**

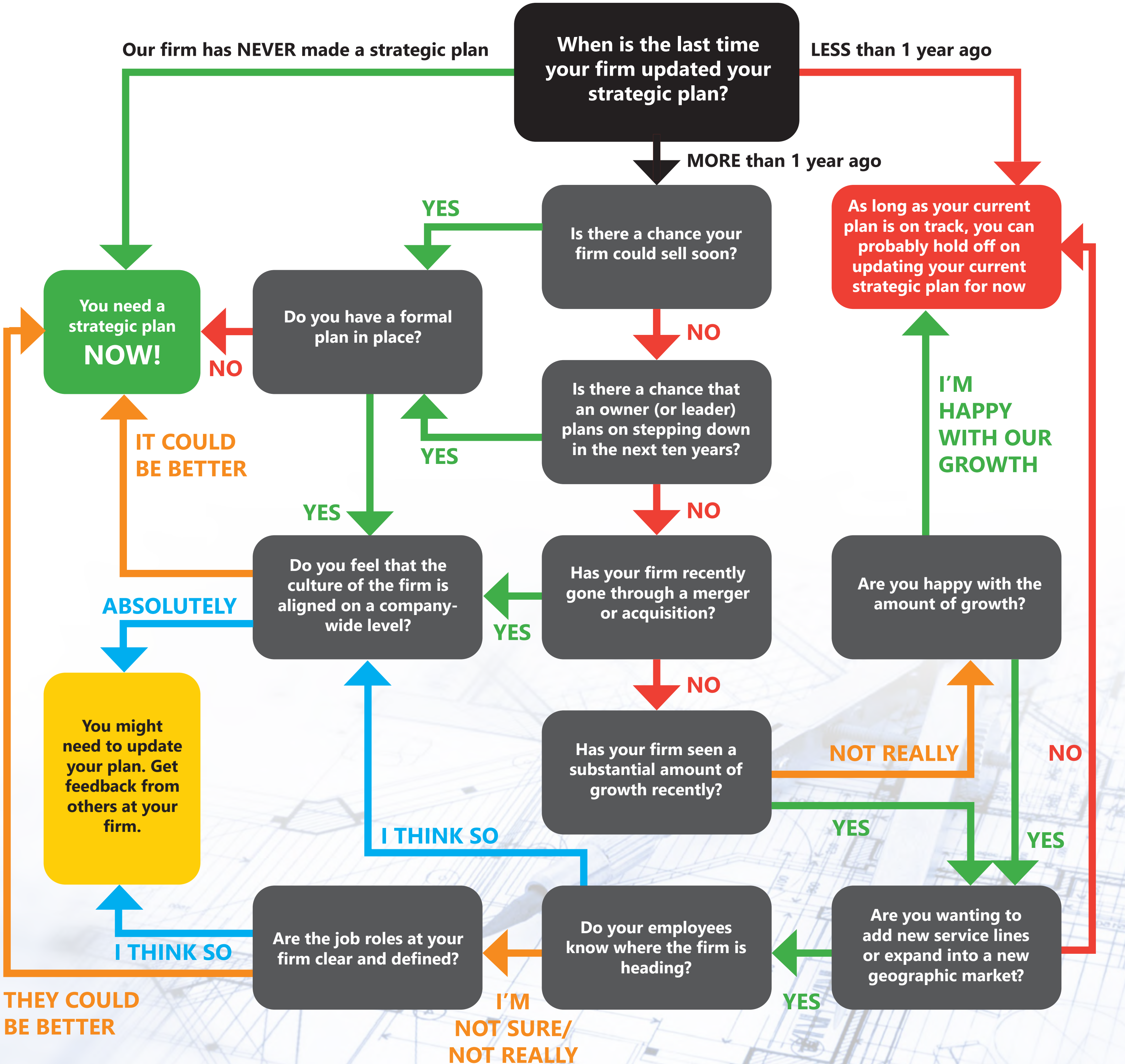
Are Your Firm's Strategic Goals and Practices Consistent?

Goals and practices in each business area must align for your A/E/C firm to achieve full potential. Here are common inconsistancies that prevent a strategic plan from achieving expected results.

IF YOUR FIRM'S GOAL IS TO:	THEN THIS PRACTICE IS INCONSISTENT:
Be team-based	**Reward only top individual performers**
Sell more to existing clients	**Reward only those who bring in new clients**
Involve employees	**Share financial data only with top management**
Focus on growth	**Require a single principal to sign all contracts**
Train project managers to sell	**Never let a project manager write a proposal**
Be performance driven	**Don't fire non-performers**

THE BIG QUESTION:

Does Your Firm *Need* a Strategic Plan?



JUST THE **FACTS**

90% **In a survey of 75 A/E/C firms that PSMJ completed on best practices in strategic planning, some 90% of respondents agreed that their strategic planning efforts had either contributed to major improvement in firm performance (25%) or some improvement in firm performance (65%).**

In our experience, top firm leaders do a better job of achieving performance improvement simply through better project management—paying attention to the details, active blocking and tackling, following up and following through on initiatives, holding one another accountable for promises made.

Not too complex, but usually difficult given the juggling of priorities common with A/E/C principals. Still, it's clear from survey respondents that strategic planning does indeed pay off in improved organization results.

WHAT MAKES AN A/E/C GROWTH STRATEGY GREAT?

Strategic Planning FAQs

Strategies are less plans of what to do than an atlas of where not to go. Great strategists narrow their focus so they can execute fewer things better. To give context about why they chose to pursue certain paths and not others and to align everyone, they offer:

- **The strategy's mission**
- **The why of execution**
- **The vision of the strategy**
- **How the strategy will be executed**

How should A/E firms execute a great strategy? It's difficult to know whether you've executed well unless you establish specific, measurable goals. Instilling objectives with clarity also helps commit people to act. When they can see the finish line, it's tangible. Holding yourself accountable is also easier when goals are specific and measurable.

If a strategy produces poor results, how can you tell if it was the execution or the strategy that was weak? When you can measure performance, it's easier to tell if it was the execution. If a key hire doesn't pan out, for instance, you'll know your strategy was fine if their performance wasn't. Or you can quantify your interview process. But when errors in execution are harder to analyze, such as failing to enter a new market, A/E firms need to consult their specific, measurable goals.

Should strategy come from the top and execution the bottom? A healthy organization makes bottom-up and top-down decisions. Top-down strategies bring order to uncertainty. Still, one or two people can't always make great decisions for everybody. To execute any strategy, leaders must empower workers to adjust the strategy when appropriate, while ensuring everyone stays the course.

If an A/E firm had to change one thing about it's execution, what should it be? A/E firms should shift their idea of successful execution away from revenue and perfection. Often, the tendency is to ask: "How billable am I?" when the strategic emphasis might also seek to understand and improve client satisfaction. A mediocre strategy well-executed is not necessarily better than a great strategy poorly executed.

A STRATEGIC PLAN **IS:**

- What you bring to the market to provide value for clients
- A specific vision of what the future looks like for your firm
- Measurable long-term goals, both firm-wide and operational
- Strategies to achieve your goals
- Assignment of responsibility and accountability

IS NOT:

- A budget
- An operational plan
- A list of tactics
- A one-time event

GETTING THE WHEELS TURNING

IF YOUR STRATEGIC PLAN DOESN'T INCLUDE THESE, IT'S INCOMPLETE.

You have accepted that you need a strategic plan—but what should it focus on first? You obviously can't cover everything right off the bat, so you must find a way to divide your time and effort in a way that makes the most sense for your firm. A good strategic plan addresses all the topics shown on PSMJ's Strategic Planning Wheel, even if certain topics are addressed years down the road.

To identify which topics you need to tackle first, you need to gather feedback from your firms' stakeholders. By asking the right questions to the right people, your firm can identify which topics from the Strategic Planning Wheel need to be a priority at the strategic planning retreat. After identifying where your efforts will be best spent, your key management can draft a year-by-year plan that includes responsibilities, due dates, and metrics for gauging success. This approach turns strategic planning from an event that happens every few years to an ongoing process that is integrated with the firm's day-to-day operations.

Sample results from PSMJ's Management Self-Audit Survey are shown above. The data from all our surveys is compared to similar A/E firms.

PRO TIP:

GET ALL THE FEEDBACK YOU CAN

PSMJ strategic planning facilitators get a comprehensive view of your firm through client feedback, management surveys, in-person interviews, employee engagement surveys, and financial benchmarking. Great decision making demands great data, so we focus hard on getting it all.

CHANGE IS HERE. WHAT'S YOUR GROWTH STRATEGY?

4 TIPS FOR A SUCCESSFUL STRATEGIC PLANNING RETREAT

NEW REALITIES = NEW PLAN

Nobody could have predicted the economic shifts associated with COVID-19. And because you didn't anticipate it, neither did your strategic plan.

Now is the time to revisit your strategic plan to make sure it's in sync with the new market realities. After all, with change comes opportunity for growth and a refreshed level of energy to tackle these new challenges. Now is your chance to position your firm for sustainable success, both in the short and long-term.

Sound growth strategy starts with a sound strategic plan. So many strategic planning sessions go badly due to poor organization and meetings that veer off of the agenda. Discussions can become mired in day-to-day operational detail instead of focusing on the long-term. Thorough preparation is key to avoiding these problems and building an efficient, productive planning session. To this end, following are four tips for effective strategic planning:

1. GET AWAY

Schedule two to three planning days at a comfortable, quiet place away from the office. You can't concentrate on planning for the future when reminders of your day-to-day responsibilities surround you. Tell people back at the office not to contact you unless there is a dire emergency (if your firm can't run without its leadership team for a couple of days, you should probably be addressing leadership issues as part of your strategic plan).

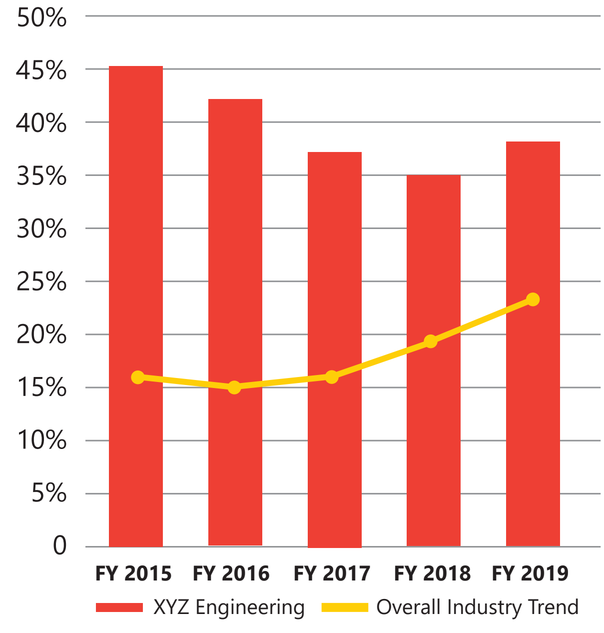
2. BRING DATA

You'll need data when you discuss your strengths and weaknesses. Otherwise, the discussion will be bogged down with anecdotal evidence, which doesn't provide you with the numbers you'll need to set measurable goals.

At the same time, it is important not to get loaded down with too much data. Today's business apps make it easy to collect numbers, but numbers don't equal knowledge or understanding. Decide what types of data are important for your own firm, your current situation, and your future.

For example, PSMJ uses up-to-date A/E industry data; surveys from employees, clients, and managers; and financial benchmarking data to get a comprehensive view of where the firm excels and where it falls short compared to similar A/E firms.

PROFITABILITY (PERCENT NET REVENUES) YEARLY TRENDS



Sample Output from PSMJ's Financial Performance Benchmark Tool

Sound growth strategy starts with a sound strategic plan. So many strategic planning sessions go badly due to poor organization and meetings that veer off of the agenda.

3. WHAT MAKES A GOOD MEETING?

Your planning time is valuable: don't waste a minute of it. Give some attention in advance to each of the following factors. These factors will make your meeting productive:

- The right people and only the right people
- Clearly-defined purpose and desired outcomes
- A good facilitator
- A time and place conducive to creative thought
- An agenda devised with your facilitator and sent to participants before the meeting
- Adhering to the agenda—revise it only with a consensus of the participants
- Specified starting times, ending times, and break times
- Clearly defined roles that people know in advance
- Self-discipline on the part of participants to adhere to the purpose and the agenda
- Time allotted to defining next steps and who is responsible for them, and scheduling next meetings

4. THE RIGHT ENVIRONMENT

The following are ground rules developed over the years by PSMJ to assure that all meeting participants understand how they are expected to behave. Each participant should agree to these before starting the meeting:

- All participants are expected to express their opinions openly and honestly
- You have an obligation to speak up if you disagree
- No one will be criticized for voicing honest opinions
- Self-serving comments are ok, if they are properly identified as such
- Objective is to reach consensus, defined as follows:
  - *The majority is in favor*
  - *Those opposed are willing to support the decision*
- All discussions will remain strictly confidential
- Make sure the sessions start on time. Anyone arriving in the meeting room after any scheduled start time will pay a $1 late fee

STRATEGIC PLANNING SUCCESS STORY:

PAPE-DAWSON ENGINEERS

In 1965, Gus Pape and Gene Dawson, Sr., founded Pape-Dawson Engineers with a goal of providing quality services with a high level of integrity to a diversified group of clients. Today, Pape-Dawson has grown to over 600 employees and has six offices. The firm provides engineering services to clients in the development, water, transportation, and environmental sectors. Pape-Dawson has also been in PSMJ's Circle of Excellence for eight years in a row.

PSMJ has worked closely with Pape-Dawson since the 1990s and has facilitated several strategic planning sessions for them over the years. Over the three-decade relationship, PSMJ has gained a deep knowledge of Pape-Dawson's strengths, struggles, culture, business lines, and goals. We understand where they have been and where they want to go. Here is what CEO Sam Dawson told us about the firm's outcome over time:

"Our association with PSMJ has transformed our company. Their insight and expertise are really unparalleled. Tangible plans, tangible metrics, and tangible results. We would not consider anyone else when it comes to sustaining and/or growing our business and our business practices."

President Gene Dawson, Jr. said the following about Pape-Dawson's relationship with PSMJ:

"The most value we get out of our three decades of working with PSMJ is their willingness to tell us no. They use industry knowledge, market analysis, experience, and generally unavailable statistics to prevent us from making uninformed or ego decisions. A very valuable relationship for our firm and a major contributor to our year after year success."

Thinking About Facilitating Your *Own* Strategic Planning? BE CAREFUL.

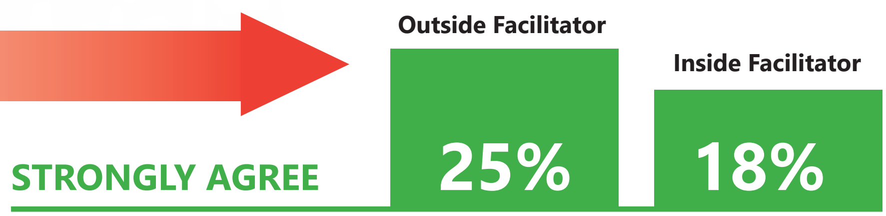
Some firms try to do their strategic planning entirely with their own people. After all, an inside facilitator would know your firm better than anyone, right? But even the most objective executive with the best intentions can facilitate ineffective retreats.

Here's what often happens:

- Strategic discussions break down into non-strategic, operational issues.
- Participants tend to look back into the company's history rather than forward.
- The discussion gets stuck in mundane, operational issues and detail, as opposed to focusing on the big picture.
- Participants don't engage in "out of the box" thinking.
- The internal facilitator cannot facilitate fully for several reasons.
  - *Lack of experience in strategic thinking*
  - *Intimidation by the owners*
  - *More concern about his or her own job than the firm's direction*
  - *Habit of dealing through normal procedures*
  - *Job pressure*
  - *Unwillingness of other staff members to share negatives with an internal facilitator*
- The process will take longer than with an outside facilitator.
- The process doesn't result in specific action items or a way to assure that the planned actions really take place.

Do you agree or disagree with the following statement:

Our firm's most recent strategic planning exercise achieved the desired results



Whether it is due to an ability to keep the meeting focused on the agenda, keep participants out of tactical and/or day-to-day operational issues, or other reasons, PSMJ research shows that outside facilitators do lead to increased satisfaction with what comes out of the strategic planning investment.

Source: PSMJ Strategic Planning Executive Survey

Still Using the Same Facilitator?

Most firms find that strategic planning retreats become stale after a while. This often results from the natural depletion of new ideas and fresh insights that come from the facilitator.

Gain new energy and focus by changing facilitators every few retreats. Ideally, the new facilitator should come from the same consulting firm as the original one, to maintain continuity during the transition.

6 WAYS TO TURN YOUR PLAN INTO AN EXCELLENT DUST COLLECTOR

1. **Make sure there are lots of broad generalizations with no action items and no accountability for their performance.**

2. **Draft your plan as a group effort so that no one person has overall responsibility.**

3. **Don't produce a milestone schedule—it might interfere with more pressing issues in the office.**

4. **Keep copies of the plan under lock and key so your competitors won't see it.**

5. **Never waste time meeting to see how well assignments are being carried out.**

6. **Don't bother scheduling annual updates. After all, the world really isn't changing very fast.**

Selecting Your Facilitator

To identify the best facilitator, start with a "short list" of 2 qualified candidates. Then rank the candidates on a scale of 1 to 10 for each criterion based on an interview and reference checks *(see table below)*.

If your potential facilitator ***claims*** to have ***all*** the answers as they walk through the door...

SEND THEM BACK OUT!

REJECT

Not even the most experienced facilitator has all the answers right off the bat. He or she must understand the firm from the inside out through research, discussions, surveys, and benchmarking. Your facilitator spends a lot of time with your company and can affect the outcome of your strategic plan, so you have to **choose wisely.**

Your Cheat Sheet for Ranking Candidates

EVALUATION CRITERIA	CANDIDATE A	CANDIDATE B	PSMJ EXPERT
Understands the A/E industry			10
Experience with multiple A/E firms			10
Ability to articulate key strategic concepts			10
Ability to provide strategic direction			10
Unafraid to tackle "sacred cows"			10
Ability to focus on strategic issues and not get bogged down in operational details			10
Ability to keep the meeting moving toward a successful conclusion			10
TOTALS			70

TRANSITIONS, START-UPS, AND THE CONTINUED DEMISE OF THE MID-SIZED FIRM

Excerpt taken from *IMPACT 2030* by Frank Stasiowski, FAIA.

The A/E/C industry will see major changes emerging (or continuing) over the next decade. Here are a few:

MASSIVE OWNERSHIP TRANSITION WILL CONTINUE.

Baby boomer owners who counted on an internal transition to collect the value that they built up over time have frequently seen their best-laid plans go awry. The Great Recession sank the value of many firms and the road to recovery has been long and difficult for many firm owners. As values recover, the cost of ownership outstrips the ability of millennials and Gen-Xers in the firm to pay for shares.

Many millennials don't show the same interest in owning a firm, or they don't recognize the value that ownership offers. With oppressively high student loans in the tens of thousands of dollars weighing on them, and the cost of living rising, millennials can find that affording to buy in is usually difficult to impossible. Ownership is also restrictive from an occupational standpoint, and the tendency among millennials is to be fluid and flexible with their career plans.

These factors, along with other aspects of baby boomers, have conspired to delay ownership transition for many firms. These situations can also drive acquisitions, as firm owners realize that their best opportunity to get the most value from their firms is by selling to an outside buyer.

This trend is going to continue and grow throughout the coming decade. Baby boomers will have to retire sometime and they will usually go the route that yields the most value. Internal ownership transition could gain some steam as Gen-Xers and millennials age and begin to think seriously about their retirements and exit strategies, but for most of the coming decade, external sales will continue to be the best "out" for a large percentage of aging firm owners.

THERE WILL BE AN EXPLOSION OF NEW FIRMS.

The recession created many new firms, as A/E professionals who found themselves unemployed had no choice but to hang their own shingle. Now, with low overhead, high flexibility, and (at least initially) nothing to lose, many of these firms not only survived the Recession and beyond, but are growing fast and doing well.

Even as the economy and the industry recovered, more younger employees began asking, "Why should I buy in here when I can easily start my own firm?" This could be a symptom of dissatisfaction with their current firm, a thirst for adventure, or apprehension about what a pending or completed acquisition might bring.

With technology as it is, young professionals can easily start a firm. The cost of entry is low—they don't even need a business card, just an easy-to-build online presence. The changes are changing the entry level to the A/E profession in cost, and the pressures of transition by baby boomers exiting will cause a massive increase in the number of design firms in the marketplace. This will drive competition to grow at an even faster pace, especially if the economic hiccup likely to occur over the next decade happens.

THE CONTINUED DEATH OF THE MID-SIZED FIRM.

At PSMJ, we define "mid-sized firm" as having between 25 and 75 employees. And they're continuing to go away. Statistics on firm size are hard to come by, but anecdotally we've seen larger firms gobbling up mid-sized firms consistently since we first predicted their demise more than two decades ago. The expense of operating a firm, including insurance, human resources, training, and marketing, can weigh down firms that are large enough to need these things, but not large enough to easily pay for them.

When a firm hits 25 people, it starts adding overhead. Someone needs to deal with more complex aspects of human resources. The business manager who could handle a 10- or 15-person firm may struggle when the firm hits 25 or 50. To maintain enough workload to support a growing staff, investments in marketing and business development accelerate and expand, often into hiring of pure overhead staff. All of this can be overwhelming, sometimes negating the factors that made the firm successful and capable of growing in the first place.

Firms in this position—and even firms much larger, say in the 200- or 300-person range—often find that the middle is no place to be. They could stay small, but once they've crossed that threshold, it's difficult to go back. So, they need to grow bigger. Much bigger. But how? They can hope to grow quickly through organic means, or they can gobble up a handful of smaller firms to add mass. But the former method is slow and, particularly in this hiring climate, loaded with land mines. The latter is probably even more difficult, especially given the statistical probability of failure in any acquisition.

Another alternative, and one that many firms are taking, is to sell to a larger company. This is how firms such as Stantec and AECOM have so quickly expanded from large firms to megafirms. And we're going to see more of it in the coming decade, at the expense of the mid-sized firm.

THE ADVENT OF THE VIRTUAL DESIGN FIRM.

Technology, the need for flexibility and the allure of low overhead will result in an explosion of new virtual design firms. In many cases, an A/E firm's staff can do their work from anywhere, using collaboration tools that are the next best thing to being there. Every day, new tools come out that make the concept of the virtual firm more alluring—such as the 65-inch, roll-up TV screen that LG rolled out in 2019. By 2030, the physical office space will be far less important than it is today, and possibly obsolete entirely.

PSMJ's article titled *"No Employees? No Problem: The Virtual Firm Has Arrived"* documents the story of Peter Macrae, who made lemonade from the lemons of the Recession by starting a "virtual" design firm.

> Until six years ago, the career path for Peter S. Macrae, AIA, was relatively traditional. That all changed in 2011 when he parted ways with the recession-ravaged firm where he was managing principal and started his own firm.
>
> Macrae ARCHitecture, Inc., based in a suburb of Columbus, Ohio, has a website, 25 or 30 clients and an annual portfolio averaging 150 projects. It has everything that a typical architecture firm in has, with one notable exception—employees.
>
> Macrae's firm is a thriving, high-production design firm that delivers architecture, interior and graphic design, project management, and 3D modeling services to clients in the commercial, residential, and civic markets. And he is its only full-time staff.
>
> "My goal was to start a firm without any cash," says Macrae. "I thought that it must be possible to have a full-service, national architecture practice with zero fixed overhead. No rent. No equipment. No payroll. Just a laptop, with everything in the cloud. And it worked like a charm. I put money into an account on Day 1 just in case, but I've never touched it."
>
> Macrae says the idea came to him in his prior position when he noticed that, although they were in a room together, his staff was working more or less "virtually."
>
> "The CEO is in the corner office and there's a big bullpen with all the staff in their 10 by 10 spaces. It's the same work environment as when I started 40 years ago, but instead of having a set of drawings rolled out on a drafting desk, they have ear buds in and they're throwing electronic files to each other."
>
> In building his firm of independent consultants, Macrae had a ready-made talent pool from the good employees that his firm laid off as it dwindled from approximately 20 people to six. Even more doors opened with the passing of the Affordable Care Act, easing the considerable worry of high healthcare premiums among his contractors. ***(cont.)***

"Thinking about the future is something A/E/C firm leaders don't spend enough time doing. Industry leaders tend to be reactive, not proactive. We're constantly extinguishing the fires around us today, not considering the effect our actions have on tomorrow or the next day. Or the next year."

- Frank A. Stasiowski, FAIA

Impact 2030 (cont.)

Macrae's total stable of talent consists of about 16 contractors, but he works regularly with between six and eight. The firm works throughout the U.S., as well as in Canada and Mexico, having grown to six teams. Mid-career professionals lead five, and the sixth team is led by Macrae himself. "We have team leaders located in four different states and five different cities. Four teams serve national accounts, one team does high-end corporate interiors and I head up the group that does the one-of-a-kind stuff."

The "virtual" state of the firm remains out of its clients' view; there's nothing on the website or in any communications indicating that the firm isn't like any brick-and-mortar establishment. Macrae's few overhead costs include regular license renewals, periodic software upgrades, and the necessary liability insurance.

"I don't pretend that this virtual practice model is the great disruptor or that it's going to be the only way architects are going to deliver services in the future," says Macrae. "It's just an alternative. The Internet and all its connectivity have made this type of practice viable."

This is going to be a far more common situation in design firms as younger owners take over and unshackle the industry from centuries-old practices and policies governing how and where firms should operate. With technology making it ever more seamless to work together even when physically far apart, at a much lower cost and greater convenience, virtual firms make too much sense not to become mainstream by 2030.

THE END OF RETIREMENT.

By 2030, the entire concept of retirement will be out the window. If 40 is the new 30, then 70 is the new 40. Many owners today remain at work into the late 60s and early 70s, living a better quality of life than anyone could have imagined 50 years ago. Architects and engineers will want to continue working in some capacity and many will stay on in reduced or slightly altered roles.

At the same time, paid retirement plans and pension funds will disappear. Pension funds are already a drain on many municipalities and companies, resulting in financial stress that is driving some of them under. Baby boomers in their 60s, 70s, and even 80s will stay with their firms more often, whether out of desire, necessity, or both. For firms, these experienced professionals may help counter resource shortages that demographics and history suggest could happen.

PRIVATE EQUITY: AN INCREASINGLY ATTRACTIVE ALTERNATIVE FOR AEC FIRM SELLERS

BY KARL WOHLER

Private equity has a perception problem in the architecture, engineering and construction (AEC) world. Much of what people think they know is based on the corporate raiders who lay-off staff, close factories, and do a quick flip for a profit. While these situations make the news, this approach does not work in the AEC sector. This sector is all about human capital, and retaining employees and clients.

Most of the private equity (PE) firms active in the AEC sector work quietly in the background to partner with management, hold for longer periods, and build a win-win for investors and the firm. At a minimum, AEC firms contemplating ownership transition should consider private equity as a viable option. Here is why:

Quicker payout for retiring members and higher exit valuation. AEC firm owners typically spend a substantial portion of their career—sometimes the entirety of it—guiding and trying to build a successful firm. Such leadership usually involves sacrifices and commitments that non-owners don't have to make (and may not even know about).

When it is time to cash out, it is only fair that these owners are compensated for the value that they helped to build. And, while both private equity firms and large strategic buyers in the AEC space typically pay market value – as opposed to a discounted and prolonged internal transition—PEy firms tend to pay selling owners more up front with fewer restrictions.

In May 2021, in a transaction coordinated by PSMJ, private equity firm Godspeed Capital announced a strategic investment in Prime Engineering, an 80-person architecture, engineering, and surveying firm based in Atlanta. Thomas Gambino, P.E., who started the firm in his house in 1990, said the private equity investor met his target price, while also committing to protect and grow the culture of excellence and legacy that Gambino had established.

Gambino says that other factors drove the decision to choose Godspeed over several other suitors, but getting fair market value for the firm that he and the other shareholders spent 30 years building was an important consideration.

"A lot of A/E businesses owners are not very sophisticated financially so they undervalue their business," says Gambino. "The only way to get fair market value is to get bids from non-engineering firms. If you really study the value, take your engineering hat off, get into the financials of the business and hire a good advisor, you're going to have better exit alternatives. At the end of the day, maximizing shareholder value and protecting our culture were the priorities."

Better stewardship of your culture and firm legacy. Despite the desire to optimize value, many AEC owners hesitate to consummate a deal because they can't bear to see their hard-earned firm legacy and culture vanish when absorbed into a larger entity. Private equity buyers can offer an attractive alternative to a large strategic buyer because their model creates new platforms that require the retention of key management and a legacy culture that helps ensure against employee departures

As an example, Godspeed acquired Richmond-based Austin Brockenbrough & Associates, LLC (Brockenbrough) simultaneously with Prime Engineering. Godspeed partnered with the engineering firms' management to establish a premier, multi-discipline engineering and consulting services growth platform providing services globally to a wide range of public- and private-sector clients.

"When we started out, we really weren't interested in private equity," says Bruce Sadler, P.E., Managing Partner. "We were looking to merge, but not necessarily to be eaten up by a bigger firm. We wanted to retain our current culture and our independence to a certain degree. We were at this for several years, and it took a long time to get here, but we ended up realizing that private equity was the best fit for us."

Sadler and fellow principal Bob Polino say that Godspeed was the buyer that most completely met all of the goals that they established early in the process. "We wanted someone that would value our whole firm and invest in growing all of our market segments," says Polino, who has taken on a greater leadership role as Sadler is easing toward retirement.

"We also wanted help investing in our corporate infrastructure, in areas like marketing, IT, human resources, and recruiting," says Polino. "We wanted a fair employment agreement with staff, with no reductions, and we wanted a strategic plan in place to scale our workforce and infrastructure to address the growth in our core markets. And even though it wasn't the most important factor, we wanted a fair and equitable price. We had several good offers from really good companies, but when it all came together, it became easy to choose."

Ability to offer more leadership and ownership incentives for key employees. Another advantage that private equity offers is a growth opportunity for emerging leaders. "We were interested in not only ownership transition, but also leadership transition," says Sadler at Brockenbrough. "We have three partners slowly working their way out, all on different time frames. We've promoted from within for our three market sectors—Bob is already running our site department—and we already had the future leaders for the other two. There are a lot of moving chairs, and new opportunities with people moving up. We have some amazing people in the next generation, and I look forward to seeing them step up."

Douglas T. Lake, Jr., Founder and Managing Partner of Godspeed Capital, says that a major focus of his firm's

Continued on page 13

investment strategy is to foster leadership transition. "There's a point in time when owners desire liquidity and a seamless transition of ownership. Typically, the younger generation of management doesn't have the capacity or experience to execute a management buyout. This is when private equity can perform as a positive catalyst," says Lake, who has a nearly 20-year private equity career as an investor in Government & Engineering Services firms between his time at DC Capital Partners and Veritas Capital prior to founding Godspeed Capital in 2020. "At Godspeed we value management equity participation in any capacity, as we want management to 'think like owners' while aligning incentives towards the execution of the long-term strategic plan."

Because PE deals are usually recapitalizations—meaning that a percentage of the firm's equity is "rolled over" (i.e., retained by some or all of the selling shareholders)—employees can continue to hold ownership in the combined entity. When the private equity firm is ready to cash out, which is usually in a five-to-seven-year window, employees can conceivably purchase the firm back. Other options include selling to a strategic buyer or recapitalizing with a different private equity firm. "

The investment in Prime Engineering and Brockenbrough is Godspeed Capital's first AEC platform, which both firms regard as a positive. "We had several good offers—from private equity and strategic buyers—but when our partners met face-to-face, we all felt more comfortable with Godspeed," says Polino. "We had a lot of faith in the team because they had experience in our industry. We also liked that we were their first acquisition as part of their vision to build an AEC platform as part of an organic and acquisition growth strategy."

Greater access to capital and management expertise. As it relates to future growth and prosperity, the primary advantage that a private equity firm brings to an AEC firm is the flexibility that a substantial amount of capital provides. With nearly 4,000 U.S. private equity firms holding approximately $2 trillion in available capital—"dry powder" is the industry term—AEC firms desiring to make strategic investments can readily receive the capital they need to pursue ambitious goals.

Lake says that reinvesting in the recapitalized firm's strategic initiatives is imperative to driving long-term equity value creation. "If you invest in your people, culture, technology, and corporate infrastructure to enhance your support of your customers, while engaging your people with high-quality work and career advancement opportunities, you optimize the potential for growth and margin improvement over the long-term," he says. "There is great potential for generating EBITDA growth in smaller companies. The Godspeed Team believes in taking a patient approach. In order to position a platform for step function growth over the next five years, we may take EBITDA margins sideways or even slightly down by reinvesting the cash flow back into the business while taking a longer-term view. The short-term investment impact offers the potential for stronger long-term performance."

Despite positives, caution is warranted
Concerns about private equity's role in AEC ownership transition may be exaggerated, but they are not entirely without merit. Investors expecting to spin off an AEC firm in less than five years are likely to be disappointed, for example. "Our time horizon is five to seven years," says Lake. "We have the capacity with our investor base and current investment program to focus long term. This is important because the metrics we focus on—bid and proposal activity, headcount growth, utilization, EBITDA growth, and backlog—require investments in new business development, recruiting, technology, and other corporate infrastructure to drive outperformance over the long term."

Other valid concerns include holding at-risk rolled equity that you no longer control, disruption of the firm's culture with too strong a focus on profit growth and through additional acquisitions, and reduced ownership transition opportunity when compared with an internal transition.

As always, with regard to evaluating any potential suitor in an ownership transition scenario, thorough due diligence is critical. And while deal fatigue can become a real factor in a prolonged process, owners should avoid settling for a flawed deal just because they spent time, money and emotional energy pursuing it.

"It's stating the obvious, but cultural fit is really important," says Polino. "We went down different paths with different firms, and when we realized the cultural fit wasn't right, we ended the process. It was painful to start over again, but who you're working with is pretty important. We felt comfortable with Godspeed, culture-wise. We liked them and, six months into it, we still like them."

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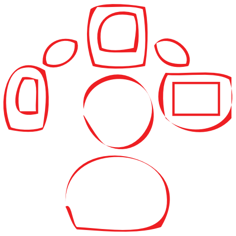

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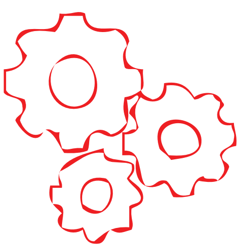

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David has more than 30 years of design firm experience in a variety of management positions, including president of a 100-person planning company and a 1,800-person engineering company. Since joining PSMJ, he has facilitated strategic planning retreats for over 100 A/E/C firms ranging from fewer than 10 employees to more than 1,000.

Jay McRae, P.E., MBA
Jay gained extensive experience in strategic development, implementation, business development, operations, and project management during his 35-year career in the engineering and construction industry.

Brian Burnett, P.E.
Brian was directly responsible for leading his previous firm's strategic planning initiatives and was involved with major leadership transitions before joining PSMJ. His diverse experience in business development, strategic planning, leadership development, and internal transitions specifically in the A/E/C space provides him with a unique perspective to assist PSMJ's clients.

Bill Hinsley
Bill brings more than 20 years of experience in strategic planning. He has led internal and external strategic planning and has spearheaded $1 million to $11 billion projects. His strategic planning areas of expertise include internal and external transitions, post-M&A strategic planning, and creating new business lines.

Denis Beaudin, P.E., LEED AP
Denis spent over 20 years leading his MEP firm, where he was directly responsible for strategic planning, leadership development, branch office optimization, and internal transitions.

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