PSMJ

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Data-Driven, A/E/C Strategies for Sustainable Success

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Median Direct Labor Hours per Project Manager

Source: 2023 PSMJ A/E Financial Performance Benchmark Survey Report

INSIDE

IS YOUR NEXT CEO A PM NOW?

Tips for Grooming PMs for the Corner Office

“Within a few years…the former PM was a principal on his way to the corner office.”

The day-to-day responsibilities of the chief executive officer in an A/E/C firm are remarkably similar to those of a project manager. To excel in either role, you need to:

- communicate well across a broad spectrum of people and positions
- build and manage internal and external relationships
- have good organizational and time management skills
- exhibit solid knowledge of the firm’s capabilities and competencies
- manage risk well
- equip your team with the right tools
- provide a big-picture view to all relevant stakeholders

The PM’s focus is much narrower, of course. No one would suggest that every good PM is a candidate for CEO simply because the positions require comparable skills. A strong PM may be a good candidate for CEO someday, however, and grooming them to potentially serve as a future firm leader is an investment worth making.

Adam James is a project manager transitioning to CEO of Design Collaborative, a multidiscipline A/E firm with offices in Indiana and North Carolina. He says, “The PM for us has to wear multiple hats for projects, including keeping internal teams and consultants moving, managing clients and relationships, and handling all the behind-the-scenes scheduling, invoicing, etc. Being organized is critical to balance all of this, as they often have multiple projects.”

Here are six tips for helping PMs achieve their greatest leadership potential.

Cast a wide net. You may already think you know which PMs are potential CEO material and which are not, but this could lead to an unfortunate oversight. We’ve seen dark horse candidates for the top job emerge and shine in the job. Sometimes it takes a slight push or change in perspective to redirect someone onto the leadership path. You may just need to plant the idea in their head.

Provide a guide to improve their skills. The better PMs are at their job, the more likely they are to climb the ladder. It always helps to have someone show them the way. James says, “Our best advice is to have someone who leads the PMs that can help distribute things like best practices and templates to use to monitor success. Automate as much as you can. Use re-occurring check-ins to establish goals for the week and keep it short.”

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Reward initiative. We know of an engineer who harbored an unspoken desire to someday become CEO, then made it happen. He first accepted a post in a relatively undesirable, remote branch location managing an important, but unglamorous project. This proved he was a team player and a leader. He then identified a market sector that was previously a strength for the firm, but that had become dormant, and wrote a business plan to revive it. His efforts were rebuffed repeatedly, but he persisted until he received a chance to put his proposal into action. Within five years, the sector was again one of the firm's strongest, and the former PM was a principal on his way to the corner office.

Train for the soft skills. Poor interpersonal skills are often the greatest obstacle for a PM with leadership aspirations. They may communicate well in the "small pond" of their project teams, but a PM needs to step that game up significantly to rise up. Even if it doesn't lead to the CEO role, PMs gain immediately and in the future from a training regimen that improves their writing, speaking and presentation skills. Brenda K. Yockstick, PE, a principal with Colorado-based JIRSA|Hedrick Structural Engineers, is a former PM now in a principal role. She stresses that PMs could benefit from training in internal and external relationship-building, time management, leadership and emotional intelligence, in addition to financial metrics and business development. Institutionalize a training program that builds these skills in your PMs and you may be surprised at how many emerge as potential leaders.

Expose them to the finance and operations components. Michael J. Complita, PE, Principal in Charge at Elliott Bay Design Group, says that PMs and CEOs need an "understanding of business metrics and drivers, both internal and overall market/client." This is a common shortcoming of A/E/C PMs. Many firms do well to keep their staff informed of the factors that drive financial success. PMs should also have a comprehensive understanding of what is expected of them and where the project stands from the financial perspective. If PMs are to advance, they need to fully understand how financial management is the backbone of the company's current and future success, and how they can best contribute.

Encourage the conversation. Many PMs with executive leadership potential can't wrap their head around the idea of becoming the big boss. Others fully expect to be CEO one day. Adam James says, "Most of the 'stars' have a lot of strengths we look for in PMs and potential future owners. But we also have other stars that want to avoid the PM world. It's fast-paced, juggling multiple things with projects, owners and contractors, and at the end of the day you can't always see what you accomplished like you can doing design or CDs." The best way to find out how your people see their future is to ask. Start the conversation. See if the reluctant PMs could be persuaded. Let them know what it would take to set them on the path to leadership and potentially the CEO's desk.

James adds that PMs who hope to become CEO should be "able to motivate and manage a team, and plan and see past a project. I don't think all PMs are strategic visionaries, but they often have to look ahead to address issues, be efficient with time and resources, and focus on the established goals."

Training and development programs can help prepare PMs for bigger and better things. PSMJ's Principals Bootcamp is coming to Seattle (August 24-25), Nashville (October 12-13), Chicago (November 9-10) and Scottsdale (December 7-8). *Register here for live or online live training:* *www.psmj.com/PBHome*. ■

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CEO CORNER

MAKE PMs ACCOUNTABLE & CLIENTS HAPPY

"Clients should never have to hunt someone down to get a progress update."

Your clients hate being kept in the dark. Every A/E/C CEO knows this, yet many principals permit project managers and other client contacts to "ghost" the people who write the checks that pay the bills. The excuses are usually the same. "I'm swamped." "They don't want me bugging them all the time." "Nothing's happening, so why do they need to know that?" "I just talked with them a couple of weeks ago." And on and on.

The real reason that project managers go incommunicado is often because they haven't done what they said they would do. Or they're afraid to deliver bad news. Sometimes it's simply procrastination.

And so, after a while of hearing nothing and then growing frustrated, the client calls a principal to ask what's happening on their project. At that moment, you have failed. Clients should never have to hunt someone down to get a progress update. That goes even for the "needy" clients who demand to be kept informed on things that you think they really don't need to know – if they're a client worth having, then recognize and accommodate their tendencies.

It's amazing in 2023 that there are still A/E/C firms that refuse to institutionalize a process of project updates. If your firm does projects, you should absolutely, positively, without question provide a recurring project update to every client. Here's why:

- **Clients are happier and more comfortable when they feel informed.** They like knowing that you're working on their project—that it's still on your radar – even if there's nothing to report.
- **It builds trust.** One of the most critical factors – *if not the most critical* – in a client relationship is trust. If you keep them happy by keeping them informed, they'll be far more likely to trust you to make good decisions.
- **Clients want a heads-up when something goes wrong.** They vastly prefer hearing bad news at the earliest possible second so they can pivot if necessary.
- **It helps clients do their job.** Your client contacts usually have to answer to someone – a manager or a Board. If they don't have solid, concrete answers from you, it makes them look bad.
- **It holds your people accountable.** There's nothing worse for a project manager than to realize the day before an update is scheduled that they haven't accomplished what they said they would. So either they get off their butt and do it, or they're forced to fess up and do better next time.
- **It's a paper trail.** If a dispute arises and you have something written that supports your version, you're in a far better position to negotiate and win an argument.
- **It helps your people stay organized.** Given the pace and volume of work for most project managers in A/E/C firms today, they can sometimes let it spiral away and overwhelm them. By having to stop and write down exactly what happened, what's going to happen, and what needs to happen, project managers can regain control of their projects.
- **It can help the client's project management.** In addition to keeping your side of the fence organized, letting the client contact know what you need from their people – or what you've asked for and haven't received – ensures that they're not a bottleneck or blaming you for their shortcomings.

How often you send updates depends on several factors, including the kind of work you do. For projects that last years, once a week may be too much. But twice a week or at least once a month is not. Often, the format and frequency of progress reports is dictated in the contract, especially for government projects. In some cases, you may want to augment the defined approach with your own.

The contents of these updates are a simple matter of telling the client what you did since the last update, what you plan to do before the next one, and anything else relevant that they need to do or know. So easy, yet still not universally done.

Here is an example of a simple yet effective project update format:

Progress Report with a Twist

1. What did we do last week?
2. What will we do this week?
3. Scope changes/Value added
4. Budget status
5. Invoice status
6. Schedule/Deliverable status
7. Input needed from client or others?
8. Other issues/concerns

What do you think? Has your firm institutionalized project updates? Do you disagree with us? Do you have any tips for your fellow readers and PSMJ Pro Members?

Write to us at newsletter@psmj.com or post your thoughts on the new PSMJ Pro membership portal.

A COMPREHENSIVE APPROACH TO MANAGING A/R

By David Gardner and David Burstein

Part 2: Before You Sign the Contract

In last month's installment, we discussed how to organize your firm to minimize your WIP and A/R days. In this installment, we'll discuss the actions you should take before you sign a contract.

Know Your Client's Payment History

A/R management starts with deciding which clients you want to work for. AXA XL Insurance Company, a major provider of A/E liability insurance, has found that 21% of liability claims result from working for the wrong clients. Here are their top categories of bad clients:

- Client is inexperienced in project/design issues
- Client has a history of claims and litigation
- Client is in poor financial condition

The same factors that create litigation risks also create payment risks. So, before you pursue a new client, do your due diligence regarding these risk factors. Here are some good sources:

- Dun & Bradstreet
- Credit/banking references
- Litigation records (www.Lexisnexis.com or Google client name, then "lawsuits")
- Other professional services providers
- Secretary of State Office

If the client doesn't have a documented payment history, ask them to fill out a credit application. Just send us an email if you'd like a complimentary example.

Are There Ways to Work for Clients Who Are a Payment Risk?

Just because a client is a payment risk doesn't mean you shouldn't work for them. Here are some ways to mitigate that risk:

- **Up-front retainer.** Apply the retainer to the last payment, not the next payment. And make sure the retainer is sufficient to keep you comfortably cashflow positive through the life of the contract. This allows you to walk away if the payment problem gets too severe. Even after the client has proven to be a good payer, continue to use retainers to speed up cash flow. (We'll discuss this at more length later in this article.)
- **Irrevocable letter of credit.** Ask the client for an irrevocable letter of credit from their bank in an amount sufficient to cover your fee. This allows you to go to their bank for payment so long as you can demonstrate that you have fulfilled your obligations under the contract.

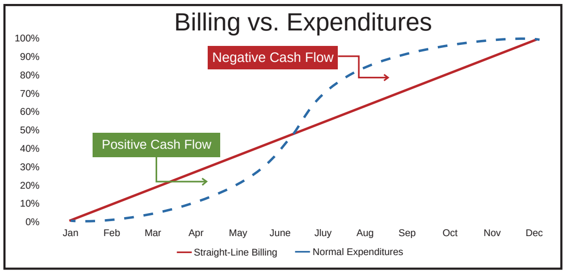
What if a Good Client is a Slow Payer?

Sometimes an otherwise good client is a slow payer. In those cases, be sure to get a firm agreement on how many days before you can expect payment. Be sure to specify the interest/penalty provisions if that date isn't met. If the payment date is more than 60 days, raise your pricing to compensate for the poor cash flow. Some firms we know actually prefer to work for slow paying clients because their higher pricing more than compensates for the slow payment.

Negotiate Lump Sum or Unit Price Contracts

In addition to being more profitable, lump sum contracts can really speed up the payment process. These are usually billed on a percent-complete basis, which is much simpler than billing for time and materials – reducing both WIP days and the time it takes your clients to review your invoices.

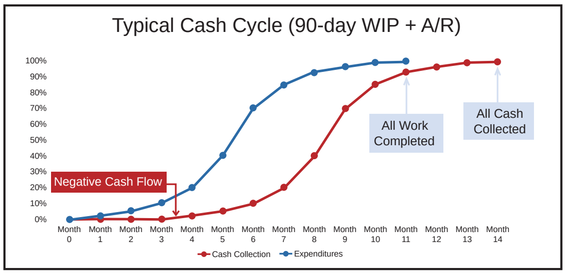
You can speed up your cash cycle even more by establishing a payment schedule in the contract. The simplest payment schedule is straight-line billing. For example, if you have a $100,000 contract that is to be performed over 5 months, specify in the contract that it will be billed at 20% on the first of each month. A project whose expenditures follow the typical S-curve thus generates positive cash flow for the first half of the contract, as shown in the example below.



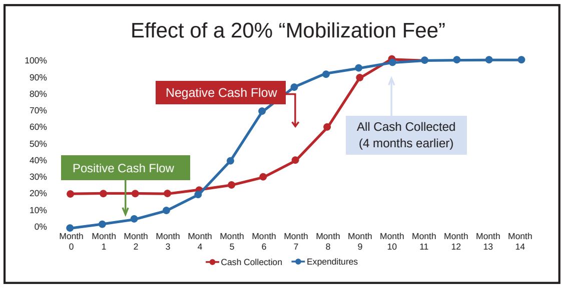
If you don't know the extent of your work sufficiently to provide a lump sum, consider using a unit price contract. For example, you can do route surveying on a cost per foot basis or lab analyses on a cost per analysis basis. Use whatever units make sense for your services – but don't use labor hours as the units.

Negotiate a "Project Mobilization Fee"

As shown in the example below, the traditional billing and payment cycle creates negative cash flow from the day the project begins until you finally receive the last payment – months after you have completed the project.



Getting an up-front retainer (which is applied to the last invoice) can dramatically improve the cash flow curve. Many clients balk at paying retainers, so call it a “Project Mobilization Fee” and explain that you have certain mobilization costs, just like contractors do. If you can negotiate such an up-front payment, the results can be dramatic (see example below).



Negotiating Good Payment Terms

Once you have been selected, your work really starts. Here are some common contract clauses that are guaranteed to create cash flow problems, along with suggested remedies:

Problems and Potential Remedies

Extensive backup for charges on T&M or cost-plus-fixed-fee contracts

- The simplest solution is to define the scope well enough to convert these contracts to a lump sum or unit price contract.
- If that’s not possible, agree on a “miscellaneous expense fee” that covers all minor reimbursable expenses. This can be a percentage of the labor invoice or added on as a dollar per hour fee.

If that still doesn’t work, ask the client if they will accept your standard project detail report in lieu of manually compiling copies of time sheets, photocopy logs, expense reports, etc.

Billing upon completion of large milestones

This can create huge cash flow problems if milestones are several months apart and especially if the client delays the project between billing milestones.

- To get ahead of the cash curve, set some early milestones. For example, bill 10-20 percent for completion of the Project Management Plan.
- Also, protect yourself by negotiating a provision to invoice monthly in between milestones.

"You get paid when we get paid"

If you are a subconsultant, you probably won’t be able to avoid this term. Here are some ways you can limit the impact on your cash flow:

- If your portion of the project is minor or if your effort is expended well in advance of the prime’s deliverable to the owner, negotiate an agreement that the prime will immediately. invoice the owner and pay you for your portion of the work.
- Negotiate with the prime a set of invoice dates & values that are acceptable to the owner and require the prime to forward your invoices on the agreed timeline.
- Negotiate a provision requiring the prime to invoice promptly (e.g., within 7 calendar days) and pay you promptly after being paid.
- Specify terms for payment by the prime if there is a payment delay that isn’t your fault.

Open-ended retainage provisions

Some large clients insist on withholding a portion of each invoice as “retainage” to assure you will be motivated to complete your activities. Here are some ways you can protect yourself:

- Offer an irrevocable letter of credit from your bank in lieu of retainage.
- Limit the retainage to an agreed-upon dollar amount, after which the client will pay 100% of your invoices.
- Negotiate a term that requires the client to release all retainage on the contractual project completion date unless the project is delayed because of your fault.

Vague invoicing requirements

Unclear invoicing requirements can result in significant delays in getting your invoices paid. The best way to overcome this problem is to negotiate very simple invoicing requirements. For example, if you are on a construction inspection contract, negotiate a preset payment every month. If the invoicing requirements must be more complex due to the client’s internal procedures, attach an agreed-upon sample invoice to the contract.

T&M invoices requiring progress report

Sometimes, clients require that a progress report accompany the invoice on a T&M contract. This can hold up the invoicing until your PM prepares the progress report and can hold up payment until your client’s PM approves the progress report. You can mitigate this problem by getting your client to agree to separate the invoice from the progress report so that invoicing and payment aren’t slowed down.

“Payment within 30 days of approved invoice”

This term can create huge A/R problems if your client’s PM doesn’t expedite approval of your invoices – an activity that is not normally high on their priority list. You can mitigate this problem by negotiating a reasonable time limit for the client’s PM to approve your invoices – say 7 calendar days – otherwise, the invoice should be paid without such approval.

No penalty for late payment

Many contracts contain a payment provision but no penalty for late payment. If the client expects you to meet your contractual schedule dates, shouldn’t you expect the same from them? Here are some ways to put teeth into the payment schedule:

- Negotiate a “right to lien” term into the agreement.
- Specify “guaranteed interest” for late payment.
- Get an irrevocable letter of credit from your client’s bank.
- Include a right to lien and/or a right to withhold delivery of documents in the event of late payment. (You usually have that right even if it’s not in the contract but it’s easier to enforce it if the client has overly agreed to this term.)

Will you always be successful when you try to negotiate favorable payment terms into your contracts. Of course not. But if you never ask, you’ll never be successful.

Next month, we’ll discuss how to deal with late payment problems when they rear their ugly heads.

David Gardner is Senior VP with Coffman Engineers. David Burstein is a Senior Principal with PSMJ.

TAKING THE GUESSWORK OUT OF PROJECT DELIVERY

Gannett Fleming's ONEprojectTEAM Approach

Michael Valentino

In pursuit of more efficient project delivery, Gannett Fleming, an ENR Top 30 engineering firm that offers planning, design, technology & construction services, advocates a project delivery method that it calls "ONEprojectTEAM." According to Michael Valentino, a pre-construction leader with the firm, this approach allows the team to arrive at cost and schedule certainty by emphasizing early, open and frequent communications and collaboration among all team members.

"ONEprojectTEAM prioritizes safety and balances quality, schedule, and cost. It also creates a culture of caring where innovation, trade-offs, quality, and value are integral to the project," says Valentino, who authored a thought leadership piece about this approach on the company's blog.

With this approach, Gannett Fleming institutionalized a series of common-sense steps to enhance project management and delivery that many projects fail to achieve. For example, Valentino notes that organizations often keep maximum allowable cost (MAC) a secret, leaving the project team in the dark about the combination of design solutions and schedule that will meet the program requirements and still be within budget. "As an industry, we typically only find we are over budget at the 60% and 90% check estimates, which creates a pandemonium of value engineering," says Valentino. "This often leads to inefficient rework, cutting items the client requested and losing time."

Instead, Gannett Fleming targets value delivery. "Inserting value into the equation and having the client share their MAC builds trust," he says. "We measure success by whether the team delivered the best value within the allotted time and budget. There are no artificial budget constraints. We complete design, planning, estimating, and coordination collaboratively with value-focused solutions, and we eliminate surprises through continuous alignment on cost and schedule certainty."

Another differentiator is that all stakeholders develop the value proposition, clearly identify the conditions of satisfaction, and determine whether the design solution is within the allowable cost up front. The team controls the scope through continuous refinement, not reduction, and stakeholders are challenged to improve efficiency with just-in-time decisions. This contrasts with a design phase that shows minimal concern for cost or schedule, resulting in a laundry list of program requirements and inefficient scope changes to get the budget back in line.

Valentino says that the goals of ONEprojectTEAM are to:

- Focus on the best solution for the client. Evaluate what can be done versus what cannot be done.
- Identify a maximum allowable cost budget, completion dates, and value proposition before detailed design begins.
- Establish minimum criteria for quality.
- Recognize blind spots or places where the estimate may need more development. Maintain a risk and opportunities register.
- Empower all team members to collaborate daily and fine-tune deliverables to maximize value.
- Make sure there is 100% buy-in and everyone feels empowered to speak up about anything that could affect the project's outcome.
- Emphasize that new features and elements of scope definition are not additive; supplemental funding is not an option. If the team misses a project scope item and it is a true program requirement, it must decrease or eliminate a nice-to-have element as a trade-off.
- Do not allow change orders or schedule extensions unless the program charter is changed.
- Monitor design progress and replace predictions (quantity, size, capacities, materials) on scope, firm up expected cost, and price with current market pricing from the contractor performing the work. Present any variances for target value delivery trending and trade-off suggestions.
- Use a variance (trend log) tracking tool for perpetual alignment. Offset funding from within or across work groups before funding from contingency.
- Synchronize target value delivery with cost accounting and status reports for a current estimate at the complete forecast to improve confidence with value decisions.

Valentino adds that the ONEprojectTEAM mindset eliminates "us" versus "them" and creates a team where members are proactively engaged to meet project challenges and have fun. "All parties should check their ego at the door, and feel comfortable sharing vulnerability, admitting that they don't know an answer and asking for help without embarrassment. It embraces the philosophy that everyone wants to do a good job and help each other achieve more than they thought was possible," Valentino says.

A/E PROFIT, MULTIPLIER AT ALL-TIME HIGH: PSMJ FINANCIAL PERFORMANCE SURVEY

Firms Report Operating Profit of 20.8%, Direct Labor Multiplier of 3.31

"This tells me we're seeing some upward mobility in fees."

A few months ago, PSMJ founder Frank Stasiowski told viewers of the $10,000 Hour Senior Executive Briefing, "In 2019, before COVID, I said that we'll have a roaring 20s, and that in spite of what goes on in the world, our architecture, engineering and construction business is going to boom during the next 10 years. I still believe that and I can prove it."

The results of the just-released *2023 PSMJ A/E Financial Performance Benchmark Survey Report* support this view, as median operating profit on net revenue reached an all-time high of 20.1% in 2022. This is up from 18.3% from the prior year survey and over a point higher than the previous record of 18.8% in 2019.

PSMJ President Greg Hart said, "Firms by and large anecdotally report record years, revenue-wise, which this bears out. What is equally interesting is that the median direct labor multiplier, which we've seen trending up for years, is also a new record at 3.31. Last year it was at 3.23. This tells me that we're seeing some good upward mobility in fees, which is really encouraging. We've struggled for years as an industry to boost fees and to get fees commensurate with value, and it seems like we're starting to make some progress."

The survey report notes, "By year-end 2022, profit levels, revenues, and project performance are at historic highs, with increasing staff growth and backlog. Although firms continue to face challenges with working from home, talent retention, high labor costs, and turnover, last year's record inflation and overhead rates seem to have leveled off slightly."

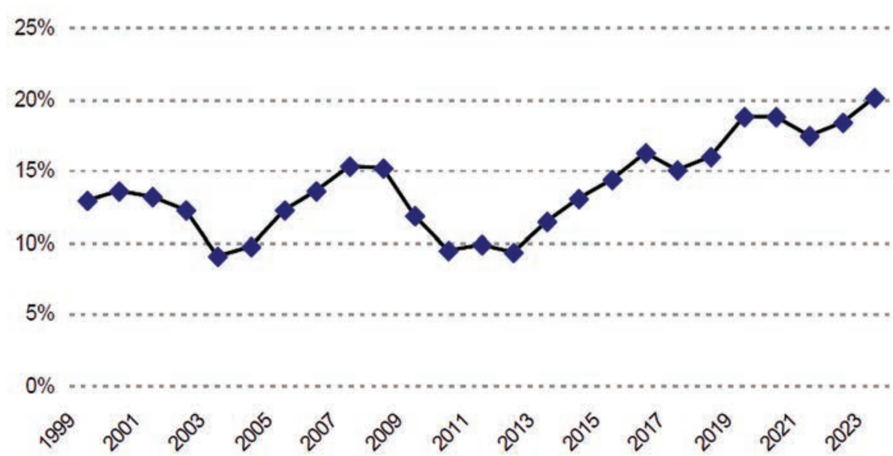
Smaller firms with fewer than 50 employees reported the highest operating profit percentage (above 22%), while mid-sized firms with 351-750 employees had the lowest results (15.5%). Among the disciplines, architecture firms reported the highest profit margins while environmental firms lagged. Regionally, the Mountain States did best with a median operating profit close to 30%, while the Northeast and Midwest were both under 20%.

Operating Profits (Before Incentive/Bonus Payments and Income Taxes) as a Percentage of Net Revenues

	Net Profit Before Incentive/Bonus Payments and Taxes			
	25th Percentile	Median	Mean	75th Percentile
Overall	13.3%	20.1%	21.5%	30.1%
Staff Size 1 to 20	15.7	22.4	26.7	37.6
Staff Size 21 to 50	13.0	22.5	23.2	33.3
Staff Size 51 to 100	13.0	21.1	20.5	30.4
Staff Size 101 to 200	13.5	19.0	20.2	26.6
Staff Size 201 to 350	13.5	17.6	18.7	23.6
Staff Size 351 to 750	12.2	15.5	17.7	21.7
Staff Size over 750	13.4	17.3	20.7	23.3

Source: 2023 PSMJ Financial Performance Benchmark Survey Report

Operating Profit as a Percentage of Net Revenue (Historical)



Source: 2023 PSMJ Financial Performance Benchmark Survey Report

To purchase your copy of the 2023 PSMJ A/E Financial Performance Benchmark Survey Report, go to go.psmj.com/2023-financial-performance-benchmark-survey-report.

PSMJ'S QMF: A TALE OF TWO MARKETS

Public-Private Split Rages, but Housing Ticks Up

"By and large, the residential market isn't on the utter verge of complete collapse that we feared it might have been a couple of quarters ago." – PSMJ President Greg Hart

Second-quarter results from PSMJ's Quarterly Market Forecast (QMF) survey of A/E/C firms revealed a growing split between healthy public-sector markets and struggling private-sector markets. The six major markets with the strongest proposal activity are all fed by public dollars, at least to some degree, while the bottom half are all mostly or partly driven by the private side.

Energy/Utilities topped the 2nd Quarter results with a net plus/minus index of 75.0, its best showing in at least five years. It climbed 19.9 points, quarter to quarter, and 16.4 points, year to year. Water/Wastewater was runner-up at 66.7 (down 4.1 quarter to quarter and up 1.2 year to year), and Environmental took the bronze at 61.1 (down 10.3, up 14.7). Transportation at 59.2 (-6.3, +20.7), Other Government Buildings at 47.5 (+8.1, +8.2) and Education at 46.1 (+3.9, +1.2) rounded out the top half of the 12 major markets.

The Commercial Users (-6.4) and Commercial Developers (-5.0) markets fell back into negative territory in the 2nd Quarter after bouncing back slightly in the 1st Quarter. Commercial office submarkets in both the Users and Developers sectors are a large reason these major commercial markets are in the dumps.

Housing was third-lowest at 17.9, though there is some optimism for this bellwether market. PSMJ's Greg Hart, in the July $10,000 Hour A/E/C Senior Executive Briefing, said that there are indications that the Housing market has bottomed out. Not only has the residential subdivision submarket improved for the last two quarters in the QMF – returning to positive territory for the first time in a year – but data and anecdotal evidence from other sources leads to the same conclusion.

"What I heard at the AIA Convention is that, by and large, the residential market isn't on the utter verge of complete collapse that we feared it might have been a couple of quarters ago," Hart said at the July 13 live video event (available to subscribers on the PSMJ portal). The National Association of Home Builders (NAHB) also reported that builder confidence in the market for newly built single-family homes in June rose for the sixth straight month. Its index number of 55 marked the first time that the metric cracked the midpoint of 50 since July 2022.

PSMJ's NPMI is the delta between the percentage of respondents who report improving proposal activity in market or submarket and those reporting a decrease. So if everyone responding says that conditions are improving, the index would be 100. If everyone says that activity is declining, the NPMI would be minus 100. PSMJ has been conducting the QMF survey, which measures the outlook for 12 major markets and 58 submarkets based on proposal activity, since 2003.

Go to www.psmj.com/surveys/quarterly-market-forecast-2 or the new psmjpro.com membership portal.

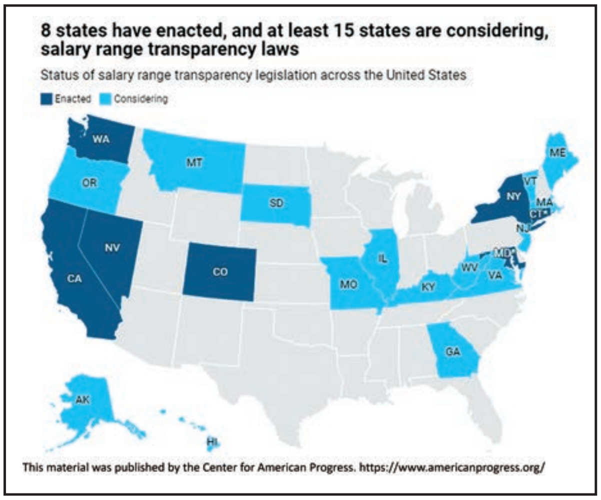
Major Markets Proposal Activity, 2nd Quarter 2023 (NPMI)

Market	2Q23	1Q23	2Q22	Q to Q	Yr to Yr
Energy/Utilities	75.0	55.1	58.6	19.9	16.4
Water/Wastewater	66.7	70.8	65.5	-4.1	1.2
Environmental	61.1	71.4	46.4	-10.3	14.7
Transportation	59.2	65.5	38.5	-6.3	20.7
Other Government Buildings	47.5	39.4	39.3	8.1	8.2
Education	46.1	42.2	44.9	3.9	1.2
Healthcare	38.2	40.6	60.0	-2.4	-21.8
Heavy Industry	37.0	39.3	36.4	-2.3	0.6
Light Industry	36.2	38.5	44.4	-2.3	-8.2
Housing	17.9	26.3	55.0	-8.4	-37.1
Commercial Developers	-5.0	0.0	17.2	-5.0	-22.2
Commercial Users	-6.4	2.5	29.0	-8.9	-35.4

Source: PSMJ Quarterly Market Forecast Survey of A/E/C Firms. (NPMI=Net Plus/Minus Index)

TIPPING YOUR HAND: PAY RANGES IN JOB ADS

Five Reasons Not to Fear Pay Transparency



Eight states and at least seven major municipalities have enacted pay transparency laws, including California and New York City. Fifteen states are considering it. Given this trend, pay transparency may be headed your way if it hasn't already arrived. Should you be worried? Or is this a good thing?

The first step is to understand what pay transparency actually means, and the answer is different depending on the jurisdiction. Typically, it means one of three things – a company must provide applicants with the salary range for a posted position at a specified point during the hiring process; it must provide employees with the salary range upon request, when changing jobs, or upon hire; or it must include a salary range in job postings.

California, Colorado, New York State and Washington State require a pay range in job postings. In Connecticut, Maryland, Nevada and Rhode Island, companies must provide a pay range upon request by a candidate or employee at specific points during the hiring process or even during employment or at promotion time.

PAE Engineers, a 360-person MEP, technology and lighting design firm with six West Coast offices, decided to get ahead of the pay transparency curve. In 2022, before the pay transparency laws took effect in Washington State and California, the firm began posting pay ranges for all job listings – even in Oregon where the firm has two offices, but no pay transparency law exists. The firm then took it a step further.

"We're also supplying every employee with their own individual pay range," says Shiloh Butterworth, sHRBP, PAE's Oregon Region Leader and Chief People Officer. "We were looking at doing this anyway, before the state transparency requirements came out, and we wanted to make sure all of our employees knew the pay range for their own position before they started seeing it online."

The percentage of job ads on employment platform Indeed that included a pay range climbed to 45% in April 2023 from less than 20% prior to the pandemic, according to a report by the company. Some employers dodged the pay range requirement by posting ridiculously wide gaps between the minimum and maximum compensation number, a tactic that has resulted in updates to some laws. But according to Indeed, most companies adhere to "good faith" standards.

This suggests an understanding that pay transparency in job ads – whether forced or voluntary – is the smart play. Here are five reasons why.

It saves time. Companies have traditionally withheld the approximate pay range in job ads for fear of "tipping their hand" to applicants. The thinking goes, if you make them make the first move, maybe you'll get a bargain. This is not only insulting and out of touch with the modern working world, it's counterproductive. Think of how much time is wasted by hiring managers and prospective employees who have wildly different expectations for what a certain position will pay.

It rewards firms that do it right. "Most A/E/C firms are in the same position we are, trying to recruit and retain the best engineers we can," says Butterworth. "There are plenty of places where you can benchmark compensation against industry and national data, including PSMJ. If you're doing those things, and you're paying your people fairly, you should have nothing to hide."

It promotes diversity and equitable pay. Professors Tomasz Obloj and Todd Zenger, in a February 2023 article in the Harvard Business Review, said, "pay transparency is reducing pay inequities across gender, ethnicity, sexual orientation, and other dimensions." They cited a study showing that in academic settings and other industries, pay transparency has "dramatically reduced the gender pay gap, even eliminating it in some states."

Your job ads perform better. "Data shows that when prospective candidates look for new roles, job ads with pay ranges are much more likely to be opened and explored," says Butterworth. LinkedIn reports that 91% of U.S.-based survey respondents said that including salary ranges in a job post would affect their decision to apply. Salary ranges (89%) also came in a close second to "responsibilities of the role" (90%) in the elements of a job description that respondents found most helpful in driving the decision to apply.

It makes you look good. LinkedIn also said that 82% of respondents have a more positive impression of companies that include a pay range in job ads.

There are potential drawbacks to pay transparency. Professors Obloj and Zenger found some erosion of overall compensation levels in organizations with pay transparency, and even a potential loss in performance when the focus is too heavily skewed toward compensation. Firm leaders may also have some explaining to do when the pay range for a hard-to-hire position or one based in a high cost-of-living location dwarfs the range in other offices.

Ultimately, however, pay transparency's plusses outweigh its negatives. And, with employment's legal landscape trending the way it is, you may not have a choice. ■

PSMJ LAUNCHES NEW MEMBER PORTAL

On July 20, PSMJ launched a new online PRO portal for members. The user-friendly site provides far more straightforward access to the many professional benefits of PSMJ membership, and encourages and supports better collaboration among members.

Sarah Montague, PSMJ PRO Membership Growth, Engagement, and Community Management, said, “We listened to our members and recognized the need for a more robust online membership portal. PSMJ membership is much more than a monthly newsletter, and this new portal is a one-stop location for the essential membership resources that help our members grow and accelerate their business.”

Key components of the new portal include:

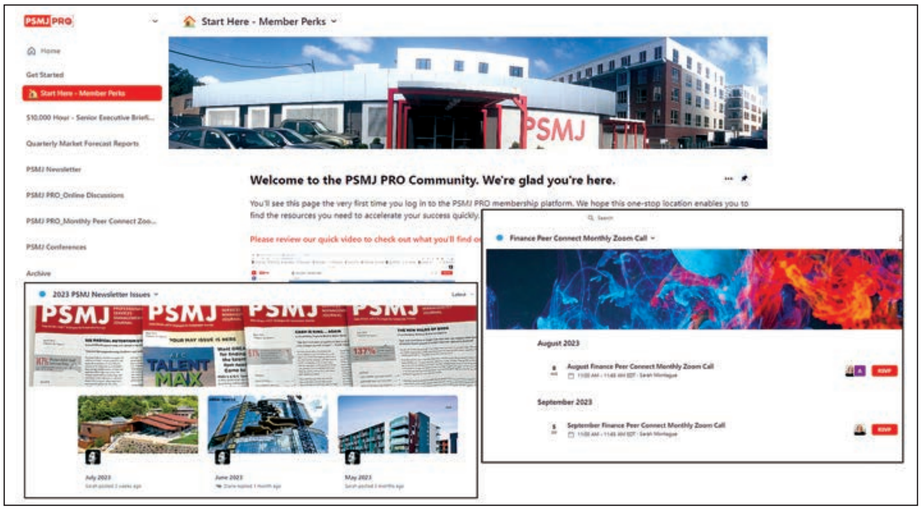
- Searchable online discussion forums for immediate advice from peers
- Access to registration links for monthly Peer Connect Zoom meetings
- Monthly PSMJ Newsletter
- Quarterly Market Forecast
- Access to the registration link for the live broadcast of the exclusive $10,000 Hour: Senior Executive Briefing and other presentations

Here is how members can set up a profile on the portal:

1. All members should have received an email from noreply@psmj.com containing a link to create your new profile on the portal. Check the spam folder if it’s not in the email inbox.
2. Once you create your profile, be sure to bookmark psmjpro.com and save your login credentials. Then add noreply@psmj.com to your contact list.
3. You’ll receive notifications when other members post in the discussion forums and when we add new events and key content.

“Though this is an evolving process, we’re confident that our members will find this new portal easier to navigate and better designed to meet their expectations and needs.”

If you can’t find the psmjpro new portal email invitation, contact smontague@psmj.com or dconstantine@psmj.com. ■



THE ARCHITECT’S EXPERIENCE RETURNS TO METALCON

Back for a third consecutive year and brought to you by PPG, this “show-within-a-show” is focused on the use of metal as a design and construction component. Featured in METALCON on October 18-19 in Las Vegas, The Architect’s Experience was created to help architects, designers, specifiers and engineers solve tough architectural, structural, environmental and building performance challenges.

Offering exclusive education sessions specific to design professionals, attendees will hear from respected thought leaders, award-winning architects, and industry experts, including featured keynote morning kick-off sessions. On Wednesday Oct. 18 beginning at 8.30 a.m., Christopher Sotiropulos, vice president of stadium operations joins Gary Edgar, manager of architectural specifications and industrial coatings of PPG, to present “Designing for Las Vegas: A Full House of Finishes for Allegiant Stadium to Enhance, Protect & Cool.” Sotiropulos will share what it took to build – and maintain – this $1.9 billion stadium, as well as its ongoing sustainability initiatives.

The next day at 8:30 a.m., architect and author Stefan Al, will delve into the world of architectural innovation and its profound impact on skylines worldwide in his keynote, “Steel and Skylines.” Drawing from his acclaimed book “Supertall,” Al will share insights from the realm of skyscrapers, shedding light on the emergence of a new generation of towering structures that defy conventional limits in terms of height and design. Additionally, he will highlight the unceasing evolution of Las Vegas Boulevard as he explores the developments of resort design contributing to the city’s distinctive character. Based on his book “The Strip: Las Vegas and the Architecture of the American Dream,” he uncovers the dynamic changes that have shaped this iconic destination, while contemplating the importance of sustainability in its ever-evolving architectural landscape.

To learn more about The Architect’s Experience go to metalcon.com/promember. The METALCON show site is at www.metalcon.com. ■

CONSTRUCTION TECH INVESTMENTS SOAR

$50 Billion Invested from 2020 to 2022

In a May 2023 article titled "From start-up to scale-up: Accelerating growth in construction technology," global consultancy McKinsey reported, "strong demand for infrastructure, a shortage of skilled labor, and increased stakeholder pressure for data transparency and integration are all accelerating digital adoption. As a result, the AEC tech ecosystem has experienced an explosion of investment and a wave of start-up launches. An estimated $50 billion was invested in AEC tech between 2020 to 2022, 85% higher than the previous three years."

Suffolk Technologies, a venture capital subsidiary of Suffolk Construction, has made 30 investments to date and also operates the BOOST Program, a six-week accelerator program for "proptech" (property technology) startups.

John Fish, chairman and CEO of Suffolk Construction, says that the construction industry is "ripe for disruption," and announced that Suffolk Technologies raised $110 million to invest in commercial real estate technology. "The construction and real estate category is a $6.4 trillion industry that makes up 5% of U.S. GDP. Despite the importance of our industry to the American economy, construction and real estate continue to lag behind other industries when it comes to innovation and the use of technology and data," said Fish.

"By raising money for this fund, investing in visionary entrepreneurs and startups in the construction technology space, and allowing for the testing and development of exciting new tech solutions on Suffolk jobsites throughout the country, we are contributing to the innovation lifecycle, adding value to our clients through more efficient projects and helping to redefine the built world for generations to come," Fish said.

Suffolk Construction is a $5 billion national firm based in Boston.

MEMBER SPOTLIGHT

Name: Natalia Castro

Position: COO & Shareholder

Firm: Saltz Michelson Architects

Number of years in the A/E/C industry: 10 years

Biggest challenge in your career so far? One of the biggest challenges I've encountered in my career so far is bridging the gap between different generations and ensuring effective communication and collaboration. As technology evolves rapidly, each generation tends to have distinct preferences, communication styles, and expectations in the workplace. This requires me to adapt my language and operational methods to effectively engage and understand the diverse perspectives and experiences of individuals from various generations. It involves finding common ground, being open to learning from each other, and embracing flexibility and inclusivity to foster a harmonious work environment. By recognizing and appreciating the strengths and unique contributions of each generation, I strive to create a shared language that transcends generational differences and promotes productive teamwork.

What is a key tip you could provide to an emerging leader? Use your free time to learn about yourself and enhance your emotional intelligence. This won't just pay off at work, but in all areas of life. From the get-go, remember it's not all about you. Set your ego aside and look at the bigger picture. Leadership is mainly about the people you're leading, not the leader. The more you understand and connect with your team, the better you'll perform.

What's your favorite moment of your career so far? Several. But recently we created a strategy to break into a market we had no experience in and landed a very big contract. It was a huge win.

Who or what inspired you in your career? The key inspiration in my career has been my mother. She's the pillar behind all my achievements. We relocated from Brazil when I was a mere 13 years old, and she tirelessly put in hours, both day and night, to put food on the table and provide me with a better future. Her unparalleled work ethic, selfless nature, and unwavering tenacity fuel my motivation each day.

Guilty Pleasure: What can you not live without? Joe Rogan Podcast.

Future prediction: What is coming in the industry within the next 10 years? I believe technology will disrupt the industry, not only at the software tools level but as well as the new generation coming into the workforce. Advances in AI, VR, AR, and 3D printing will allow for more detailed, efficient design and construction processes, from concept to construction. Another key trend could be the rise of 'living' or 'responsive' buildings that can adapt to their environment and user needs in real-time using sensor technology and smart materials.

(EDITOR'S NOTE: Natalia will be presenting the breakout session "Gen Z is Coming: Let's Get Our A/E/C Firms Ready" at A/E/C Thrive in Salt Lake City, September 20-22.)

KPIs FOR SALES PIPELINE

Question: I'm reaching out to this group to see if any of you use certain metrics/KPIs for your sales pipeline. I would like to be able to have a baseline sales pipeline number that we track against so that I can push our leaders to go after more opportunities if the pipeline dips below the metric.

David Quirk, Managing Principal of DLB Associates in Neptune, New Jersey, wrote:

We look at the following:

- Opportunities in pursuit (estimated values only)
- % conversion rate to proposals below
- Proposals in progress/submitted (combo of estimated and actual $)
- % conversion rate to awards below
- Proposals/projects awarded (actual PO $)

Depending on your conversion rates, cashflows (avg days on AR), you reverse engineer the amount from monthly awards back up to the amount you need to have for proposals in progress and opportunities in the pipeline. Depending on the disaggregation of services, amount of staff (monthly billable hours using your billable utilization), you can determine the amount you need in the opportunity pipeline and amount of proposals in progress in any given month in order to keep people busy down the road.

Tara Larsen, CFO of CBCL of Halifax, Nova Scotia, added:

We track soft backlog in our CRM software and estimate the likelihood of success. This percentage is applied to the proposal fee to determine soft backlog. We also track active backlog (work to be completed on contracts awarded) based on remaining budget. We compare prior year to current year by period and use a pivot table to present the backlog by business unit, sector, client and phase (design, construction, etc.). We also calculate backlog per FTE and compare it to the prior year.

I should note that PMs typically open project budgets for work to be completed in the current year. In the case of multi-year projects, active backlog could be spread over a few years. The project fee budget equals sales. We operate with a seller-doer model and the vast majority of our engineers, technicians, technologists and scientists have annual sales targets.

To join the PSMJ Pro Discussion Forum, members can send an email request to customerservice@psmj.com. ■