Measuring Financial Success

MY PERSPECTIVE SERIES:
REPRESENTING THE AUTHOR'S PERSONAL PERSPECTIVE

Successful financial performance is the result of meeting goals and actions in three areas: operations, marketing and human resources.

By Louis L. Marines

The new economy is more competitive and price-driven and requires that most firms achieve more with fewer resources. Fine-tuning financial performance in operations, marketing and human resources can help an organization become more efficient and high functioning. Three executives shared their experiences in getting through the recession and planning for the next stage.

Financial management of a design firm requires just as much skill as the design of a highly functional community, school or highway interchange. Many people enter the design professions with the intention of improving society by designing more livable communities or creating facilities that are a joy to work or play in, or buildings that are an expression of human dignity and achievement. Few university students in engineering or architecture list "creating thousands of spreadsheets" in their vision of future activities. Yet firms must be run and run well, or none of the benefits that accrue to society from the design professions are possible.

Successful financial performance in a well-run firm is the result of meeting goals and actions in three essential areas: operations, marketing and human resources. These areas must support each other holistically and include elements such as clarity of leadership and a strong vision of the future, integrated marketing


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and client relations, high-functioning teams, a staff development and leadership succession plan, and a financial approach that works for the firm's size and markets.

The only way to understand whether these elements are functioning as they should is through measurement. Most firms know whether they are profitable or not, but even with today's technology, many companies are still unclear about whether a project is below budget, on track or over budget in any given week. Other firms are not able to say which of their markets is most profitable, whether any of their clients are actually a financial drain on the firm or if staff turnover is too high. Without this vital data, making decisions about the future or adjusting a strategic course can only be based on a guess.

The firm's leaders must decide what information they will need to understand whether systems are holding steady, slipping or exceeding expectations. They must also decide on a process for analyzing the collected data to understand what factors are influencing the results and how the firm will take action:

- What information is wanted?
- Who is going to track it?
- How will it be measured?
- When will measurements be taken?
- What underlying causes can be determined for the results obtained?
- Based on what is learned, how will the firm decide on future actions, and how will these actions be implemented?

Firms often look at industry surveys as benchmarks for guidance. These may be helpful as touchstones, but are only useful to a point. What matters most is that each firm understands how its strategies and competitive advantages result in optimum financial performance over the long term, and these will necessarily be different for each firm's unique circumstances. Relying too heavily on standard formulae — industry averages, medians, maximums and minimums — can cause a firm to underperform for its potential. The industry snapshots widely available are not useful when considering how a unique firm should measure itself against other organizations, as strategies and long-term performance are not revealed in the reported numbers. Basing decisions on such partial information can be risky or even completely inappropriate for a firm's given circumstances.

The kind of in-depth analysis we advocate can lead firm executives to what are often the hardest challenges to face: to stop doing something in the realm of services, client types, geographies or project delivery methods. One challenge is simply recognizing that a given area is no longer contributing to the health of the firm. None of us is immune to the biases that make these choices seem difficult or even impossible. Overconfidence, confirmation bias, risk aversion and a host of other preconceptions can get in the way of making good decisions. Involving firm managers and leaders with a variety of perspectives in these analyses and decisions can help overcome the biases that may hamper a group whose individuals are more homogenous in attitude and experience. A decision to stop doing something also means a related exercise is needed in analyzing and deciding what to do with the human and financial resources that are now available for reinvestment elsewhere.

FINANCIAL SITUATIONS IN THE REAL WORLD

We talked with three leaders about their approach to managing the firm's financial health over the past few difficult years. Each of the three firms faced a unique situation and had to react and adapt to the new conditions presented by the recession and post-recession environment.

Judith Nitsch, CEO of Nitsch Engineering, Boston, Mass., told us that, "Nitsch Engineering felt the downturn begin in 2008, before many other firms, since land surveying always seems to be the 'canary in the coal mine.' During 2008 we developed a plan to be sure we were poised to do the right things instead of just reacting when the economy collapsed. We instituted our plan in March 2009, including these cost-saving measures: laid off five employees, reduced salaries for the chairman by 10% and for directors by 5%, had some employees go on a reduced workweek, and eliminated unnecessary travel and expenses. We repurposed our summer outing to be monthly fun events for staff, held in the office and organized by different departments. Despite tightening our belts, we maintained our marketing efforts in those markets that we had forecast to be the most lucrative.

"Due to our reduced sales volume and backlog, we decided not to give our annual staff raises in October 2009. Then we began to see signs of improvement at the end of 2009, and we gave those raises retroactively in spring 2010. During this period we reached out to all of the employees who really made a difference in helping keep us in a strong position, making sure they understood that we appreciated all of their efforts to make the company as resilient as we were.

"One example of an employee making a difference was the manager in our Transportation Department, who brought in several large city and state projects, which made up the reduced volume being experienced by our civil engineering and land surveying departments at that time."

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Nitsch was clearly following the basic principles of balancing operations, marketing and human resources in the best way possible given the unstable conditions from 2008 to 2010.

This return to basics was employed by all three firms we talked to as well as many others who spoke with us during the course of the year. Glenn Bell, CEO of Simpson, Gumpertz & Heger (SGH), a structural engineering firm with offices nationally, said, "We have had three years (2009–2011) of essentially flat revenues with neither any growth nor shrinkage in overall staff. When the economy tanked, we pulled in our horns and focused on good, conservative fiscal management. We deemphasized markets that were weak and pushed harder in stronger markets. As a result, our profitability has been good."

Pamela Anderson-Brulé, principal of Anderson Brulé Architects (ABA) based in San Jose, Calif., said, "We went back to our basic ratios — how much rent should we be paying versus our revenue, how much revenue we should have for our number of staff — the basic frameworks of the model. We wanted to know what should the model be and how do we get there. We completely changed our rent basis and went through some tough negotiations. We also had to disengage our personal expectations from corporate expectations — the firm had to come first. We had to look hard at overhead and make some tough decisions. ABA had a great human resources person for 20 years, who was also a personal friend, but the numbers told us it was impossible to keep her — we had to cut in order to keep the firm alive. When I finally sat down to talk to her about it, she knew — probably before I did, that it didn't make financial sense for her to stay."

Attention to balancing workloads and continuing staff development helps boost retention and maintain teams that have built working practices, knowledge and efficiency over the course of years.

Many firms were also forced to cut staff development programs, but Glenn Bell said that SGH "focused on maintaining and training the excellent staff we have and on client relationships. We improved our operational efficiency significantly, making sure everyone was productive and that some people were not overloaded while others didn't have enough to do." This attention to balancing workloads and continuing staff development helps boost retention and maintain teams that have built working practices, knowledge and efficiency over the course of years. Losing members of such a team is always costly.

Once these firms had gone back to basics, creative changes in strategy came into play to help the firms move on.

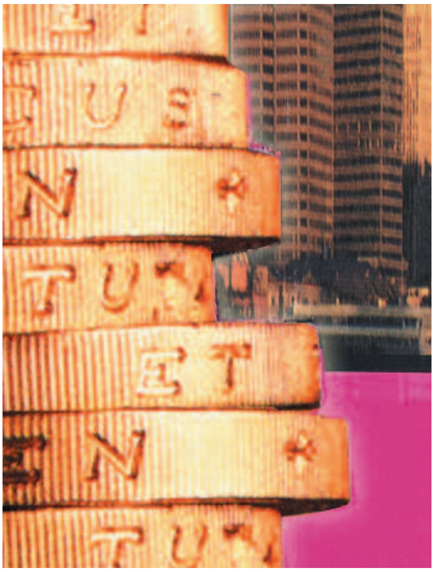
Nitsch described to us how the firm put together a strong, creative marketing effort at a low cost and ended up having its best year ever. "We created an internal slogan for the year and put it at the top of every weekly operations meeting agenda: 'Focus on activities that will keep us profitable and bring in profitable work.' We expressed to employees that if they focused on making each project profitable, the company would be profitable also. The result was that 2010 was our best year ever; both top line and bottom line, and 2011 will exceed that. We expect to gross more than $10 million for the first time."

As a special marketing effort during this time, the firm made creative use of its 20th anniversary celebration to create high visibility at a low cost. "We thought having a client party would be too expensive and give the wrong message in these tough economic times, so we developed a list of activities that we would do over the 12-month anniversary year, from September 2009 to September 2010. We started with brainstorming on what we wanted to achieve with our anniversary celebration and those goals included:

- Reach clients and potential clients
- Have proud and motivated employees
- Find out about project opportunities and win profitable projects
- Gain market share
- Foster more awareness of all our services
- Have a positive impact on our bottom line
- Have a sustainable campaign
- Be memorable — don't just do what everyone else does
- Look attractive to potential employees

"We then developed a theme for the year — Celebrating 20 years of Wonderful Projects, Terrific Clients and Fabulous Employees! — and formulated that into a series of monthly events. The pinnacle client events were four seminars targeting the teaming decision makers and highlighting Nitsch Engineering's services in markets we knew would be expanding. We provided AIA, ASLA and GBCI credits, which we knew would be a draw for attendees. These seminars were so successful we held them again in 2011.

"To save money on monthly activities, we repurposed several of our typical annual events to fit into our theme, as well as aligned them with our tag line, 'Building better communities with you.' Our additional expenditures for the year's anniversary events were only about $38,000, yet we saw a significant increase in teaming opportunities, and 2010 has turned out to be our best year ever."



SGH took a different strategic approach to preparing for future growth. "Last year we started making investments in growth, capitalizing on opportunities created by the recession," said Bell. "We made one firm acquisition and are consummating several high-level recruits in strategic areas that we have identified. We expect to return to growth in 2012."

Anderson Brulé Architects took an even more challenging direction: "We ended up creating two firms from one," Brulé said. "We went through a period of careful evaluation where we loaned some people out in the hopes we could bring them back when the economy improved. We found positions for others at various firms. Then, finally, we decided to spin off a group of our staff to form a second firm. We gave them equipment, projects and people. It was a difficult and emotional transition for all of us and took about 30% of my time for an extended period. However, we are now the right size, the spin-off firm has a chance to set its own direction in the world, and it was the right thing to do."

This is the kind of challenge that illustrates the earlier point about identifying what the firm needs to let go and then doing it in a strategic way. It would certainly have been easier for ABA simply to lay off the excess staff, yet the firm gave this group of employees a chance to remain together as a team and determine its future as a firm. Retaining close ties with a spinoff firm could provide any organization with the kind of mutually supportive relationship more typically found in a long-term strategic alliance.

With the exception of a few markets (e.g., health care), project funding continues to be highly uncertain. One of the stories heard most frequently this year from CEOs and senior executives across the board at engineering, architecture and construction firms is that of project uncertainty and instability. Projects start, are put on hold, then start up again. Some lose funding from one source only to get funding from somewhere else. Other projects change the dynamics, if not the actual goals.

Glenn Bell confirmed this perception. "We have little influence on whether projects move forward or not, except to do the best possible job for our clients to ensure the job is successful. You don't want to be responsible for project delays, because those delays can put the project at risk. Given the relative uncertainty in project continuance, the challenge has been nimble workforce management. In the past three years, we have improved our ability to react to change and keep our staff fully utilized in a chaotic environment."

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Nitsch Engineering re-evaluated its marketing strategy and shifted gears in order to bring work in during the recession. "Nitsch Engineering has always had a marketing plan that supports the firm's strategic plan," said Judith Nitsch. "We look out several years to understand the upcoming 'hot' markets. Public K–12 schools was one upcoming market we had identified in the mid-2000s. We already had a large portfolio of successful school projects and we learned that a new state law would be requiring Woman-Owned Business Enterprise (WBE) participation on upcoming projects. Focus on that market would clearly be a good strategy for us. We had stayed in touch with all of the school architects even when they had no work to speak of. As the new school program was getting under way, we sent an email marketing mailer to architects, OPMs, CMs, LAs and others reminding them of our K–12 experience. The result was that the school market flourished for all of our disciplines in 2009–2011. In analyzing the school contracts awarded in the state over the past few years, Nitsch Engineering provided services on 63% of them."

Not only has Nitsch Engineering identified and leveraged this particular opportunity, the marketing plan has identified 34 client organizations they encourage employees to join, with specific goals for their participation. This puts representatives from the firm in regular contact with clients and potential clients. "We encourage employees to become active in client organizations, like AIA, ASLA, USGBC, SCUP, WTS, ACEC, NAIOP and others, each of which has an employee who is that organization's internal champion. They are expected to join, attend meetings and become active on a committee or the board of the organization. Long ago, the firm's leaders adopted a 'divide and conquer' attitude about client organizations: One [internal team] tends to focus more on public sector clients/projects and the other on private clients."

Having a targeted focus on "the opportunities that were likely to be available to us" has strongly benefited Nitsch, as has the presence of a good rainmaker: "We have one department head who is exceptionally good at scouting out project leads and getting our firm in front of the developers or architects for those projects. The combination of client-focused teams and a strong rainmaker has helped us get 'more than our share' of the few projects that have been developed over the past several years.

"Private projects tend to be more profitable but we knew project opportunities would be slim. The firm went from 45% public sector work in the mid-2000s to 70% public work in 2010. Our workload related to our being a WBE went from 11% of revenue to almost 30% in 2010; it went back down to 21% in 2011. For Nitsch Engineering to be known as a great engineering firm is more important than being a great WBE firm, but we were happy in this recession that we had that differentiator."

The recession has forced many firms to re-evaluate their basics. Setting clear marketing goals that match up with the reality of the marketplace, leveraging membership organizations as marketing and client relationship opportunities, supporting the firm's best rainmakers and using advantages like WBE status — even if it is not usually a key element of the firm's strategy — all worked well for Nitsch Engineering, as it posted its highest gross ever in 2011.

Anderson Brulé Architects faced a dramatic shift in its market and has altered the firm's strategy to be much more targeted. "As far as getting work, it is the same old same old," Brulé said. "You have to call people, talk to them, understand their needs. We actively look for partnering strategies with other firms that don't want or can't offer what we do. We can't count on anything anymore, so we can't relax. At one time we had a 60% to 75% hit rate. Now it's about 30% percent, so we have to pursue more work to make up the difference. However, we also need to be pickier.

"We are pursuing smaller jobs and because we're a smaller firm now we can tick along on those. We are less likely to pursue big projects — it ties us up too long. We are moving faster now and if conditions do improve, we don't want to be tied into a long contract at an old rate.

"There is a tremendous amount of tension between what clients need done right now and what their budgets are: In effect they have a $20 need but only a

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$5 budget, and are under pressure still to get $20 of value. But going with the lowest bidder can be risky. One of our clients told me this week, 'When we work with you, we know we'll get what we pay for. We'd rather work with someone we know will do quality work than to take the lowest bidder and have to redo the work in a year because it wasn't done right.' We have to find the right clients for what we are now, which is difficult on the public side.

Going forward we continue to face uncertainty at every level. Millions of empty homes and declining home values continue to drag down the U.S. economy and hold state and municipal tax revenues at lowered levels. Without the emergence of an immense pool of potential homebuyers to replace those with a foreclosure on their credit reports, no relief will come from that corner. New economic strength and public revenues will have to come from a different direction, but what that will be is not yet obvious."

"Our goal for 2012 is resumption of growth," said Bell. "While nothing in the economic or market outlook tells us we're out of the woods and this is going to be easy, we're making a commitment to growth in an uncertain environment. We are not changing our fundamental strategy for capturing work, but we are emphasizing the following:

- Each principal has committed to certain stretch revenue goals for next year.
- Pairs of principals who offer different services or who are in different markets are cross-selling and working together to pursue projects where they each bring something needed to the table. We call the combination of market niches 'super niches.'
- We are looking creatively at how we can bring traditional skills to new markets that appear to be strong."

At Anderson Brulé, the smaller, highly efficient firm size and ability to react quickly are working well as a response to the current market conditions. "Our firm went from being a battleship, to being a tug boat, to being a speedboat. We had a highly efficient, strong firm, but as the economy changed, we had to become even more efficient," said Brulé. "It was important that we redefined our needs and focused on those as well as to refocus on today's reality. We only lost money one year during the recession and it wasn't much, so this is working for us. Looking to the future, we think conditions will be like this for some time to come. I'm not sure things are ever going to go back to the way they were, so we're going to continue to operate as though these conditions will be indefinite. Going forward we will stay in 'speedboat' mode, smaller, faster, leaner."

Going forward, Nitsch Engineering is entering a new market that puts the firm earlier into the project process. "We hired a new director of planning in September 2010 to grow and develop that service. We feel we have saturated the market for our civil engineering and land surveying services in Eastern Massachusetts, but planning will allow us insight into projects earlier in the pipeline. This work builds on our successful stormwater master planning services we have provided through our civil engineering department on projects throughout the country for more than 10 years."

Nitsch engages everyone in planning and monitoring financial performance, which builds employee engagement and involvement in the firm and helps it spot financial problems early. "We have found that engaging all employees in planning ahead for the firm gets and keeps them interested and motivated to help orchestrate our firm's success. We are an open-book company, so we share our financial performance with all employees annually, with project managers quarterly and with the firm's leaders monthly. That ongoing scrutiny also helps to identify potential surprises before they occur."

The firm also plans to continue leveraging unique marketing and branding opportunities. "Our long-planned January 2011 leadership transition of Lisa A. Brothers, PE, LEED AP BD+C to president and CEO of Nitsch Engineering gave us another opportunity to reach our clients and referral sources. We mailed an announcement to 9,800 contacts, sponsored email newsletters read by clients and positioned her to speak both locally and nationally. As I transitioned to my role as founding principal, focusing on business development and client relations, I reached out to our top clients of both 2010 and historically, creating another reason to speak with clients to remind them how important they are to us. Nitsch Engineering is known as a marketing-oriented firm, and that focus has helped us weather the recent downturn and won't change in the future."

To identify their best approach for surviving the recession, each of these firms has reviewed operations, human resources and marketing and refined them to create the best financial success possible under difficult conditions. By carefully measuring what works and what does not for the unique circumstances of each firm, they are able to constantly adjust and achieve better efficiency. These companies are leveraging innovative marketing ideas to make themselves more valuable to clients, and seeking new ways to serve those clients, giving their firms the best opportunities for success in a challenging marketplace. ■

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