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Positive trends shows business improving for A/E firms

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Boston-area architecture and engineering firms, can expect to see continued improvement for revenue growth in 2013. It has been a slow, steady road to recovery for most firms however the worst seems to be behind us. The results of DiCicco, Gulman & Co.'s (DGC) annual survey of Boston-area architecture and engineering firms has shown slowly improving results for the past three years. Preliminary 2012 results indicate a continued positive trend for firm growth and profitability.

One of the most followed industry trend benchmarks is the American Institute of Architects' Architecture Billings Index (ABI) which is calculated monthly. An ABI of 50 or better indicates firm billings are on an upward trend and vice versa if the ABI is less than 50. The ABI has increased for four consecutive months and is now at 53.2 for December 2012, showing its strongest growth since 2007. The northeast is the top growth area, with an ABI score of 56.3.

This is great news for the AEC industry, however not every firm is experiencing growth. Nationally, the AIA found that 2012 gross revenues declined for almost 30% of architecture firms, while they increased by at least 5% for half of the surveyed firms.

Average revenue growth for 2012 was 2.9% and is expected to increase to just 3% in 2013. One reason firm owners are not more optimistic about their growth is the ongoing uncertainty over the federal budget and reduction of the federal debt.

As we head into 2013, whether a firm is profitable and growing depends to some extent on the sector it works in. The predictable hot markets will be residential, multi-unit housing, commercial, energy, healthcare and hospitality. The aging demographics in the U.S. are an inescapable, but positive influence on the future of the AEC marketplace. The not so hot markets appear to be K-12 educational, college and university, and government owned projects. In the Boston and Cambridge market, commercial construction is booming thanks to projects such as the multi-billion dollar Seaport development and life science and laboratory development.

The following six are some of the top trends and challenges firms will face in 2013:

1. Industry consolidation - Most AEC firms are privately held; therefore it is very difficult to get exact numbers on the firms who have merged together, been sold, or who have purchased firms. It is clear that the big players in the market have embraced a strategy of growth through acquisition. There has been a significant uptick of activity in the M&A space for private companies in 2012.
2. Profit margins and pricing - One of the biggest concerns for firms, now that revenues are showing some upward movement, is the ability to turn that revenue into meaningful profit. Projects are becoming more complex and cost overruns and scheduling delays eat away at profit percentages that were already lower due to pricing pressure in the marketplace. The most successful firms at generating profit have a top down culture that emphasizes the importance of strong project management.

3. Recruiting and developing high level talent - Though surprising after the unprecedented level of staffing reductions during the recession, concerns about finding, hiring and developing the right people are back. At the end of the day, the AEC business is a people business and you need to get back to making sure you have the right talent for your firms future. Firms should avoid getting into the trap of getting too busy to develop their talent pool.

4. The worldwide economy and governments influence on confidence - Business owners and entrepreneurs are not going to stop trying to grow and build great firms because of something the government does or doesn't do. However, it is plain to see that confidence has been negatively impacted by the political wrangling in Washington. Lastly, there is still concern about the global economy which has kept many firms from looking to expand internationally.

5. Technology - Its impact on the industry and how projects are delivered continues. Firms need to embrace the changes technology has had on the AEC industry.

6. Succession planning - The statistics are out there; over two-thirds of average firm owners are over 55 years old. During 2012, many firms dusted off their old succession plans and began to plan again for the future. This will continue in 2013, which will create great opportunities for the next generation of leaders in the AEC industry.

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