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COMPANIES

Engineers See Better Times But Business Risks Still Loom (11/1/2004)

By Debra K. Rubin

Engineering firms are more bullish than usual in assessing current and future growth and profitability, says a new industry survey. But executives still point to trouble signs ahead.

Even with continuing economic uncertainty, executives of nearly 180 design firms queried by financial management consultant EFCG Inc., New York City, predict healthier top and bottom lines in 2004 and 2005, according to the firm's study unveiled at its annual meeting Oct. 21. Respondents, which range in revenue from less than \$10 million to above \$1 billion, predict, on average, a 7% increase in growth in 2004 and 10.1% rise in operating margins.

If that profit estimate is realized, it would be the highest in the survey's nine-year existence, says Paul J. Zofnass, EFCG president. Predictions for 2005 are even rosier—a 9% rise in growth and an 11.3% hike in margins. While the survey's predictions have sometimes been overly optimistic, actual results for 2003 came in equal to or even exceeding last year's predictions, Zofnass says. But average growth and profit rates for the largest firms dropped off sharply between 2003 and 2005. Surveyed firms predicted the highest average three-year growth rate, 8.7%, in the Southeast U.S. and anticipated "homeland defense" as the fastest growing market sector in 2004, at 6%.

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About 40 CEOs cited growth as their top priority, but Zofnass questioned whether bigger was really better. "In recent years, that's not been the case, he says." Leadership and personnel are top priorities for 35 CEOs, with only 10 citing profitability. The survey also shows big changes in firm ownership with far fewer public companies, down from 49 in 1997 to just 20 in 2004. More engineers are owned by outside investors now, particularly "private equity" firms. "They had no interest in this industry a few years ago because of concern with pass-through liability," says Zofnass.

Attendees countered some rosy predictions of market growth, noting economic woes in some overseas markets and lack of environmental enforcement in the U.S. Others cited personnel shortages, rising oil prices, lack of bonding, risk management and offshoring as key concerns. "The U.S. will need to reposition itself to accommodate work going abroad," said Ralph Peterson, CEO of CH2M Hill Cos., Denver. Diana Severs Ferguson, president of Shaw Environment & Infrastructure, Baton Rouge, noted that investment by U.S. firms in domestic project management skills "would be the differentiator."

Other CEOs pointed to a push for innovative ideas to boost firm numbers. "The key is creating a culture of high performance, creativity and entrepreneurship," said Bob Goldman, CEO of Blasland, Bouck & Lee, Syracuse, N.Y. "We just started a new initiative—the 'way out there' group."