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Opportunity still exists in long decline ahead

Guest Column:
Mick Morrissey

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The slowdown that many design and environmental firms are already facing and the likely recession and recovery that the industry will experience in 2009 will probably last longer and be more severe than the last two downturns. The implications of that reality already have begun to play out: flat or declining revenues and earnings for local firms, accompanied by staff and salary reductions.

For all the contraction that the industry likely will see, there will be companies that continue to grow and expand through this slowdown. For example, many firms had record years from 2001 through 2003, while others in the industry contracted during that recession. Those successful firms could attribute their growth to a combination of:

- Being in the right markets with a strong brand.
- Reframing their service offerings.
- Having a strong and high-performing team culture.
- Running very efficient and tight ships.

However, the importance of the current slowdown is that it will be both an accelerator and catalyst for continuing – and significant – change in our industry. Firms would be well advised to take note of and anticipate the following trends:

- A new golden era of public works. The next administration will likely pump significant dollars into infrastructure rehabilitation and development as part of an economic-stimulus package. Concurrently, given the fiscal challenges facing federal, state and local governments, there also likely will be greater willingness on their part to allow and encourage private participation in infrastructure development and funding. Combined, these initiatives will result in significant funding and work for firms that specialize in transportation, water and wastewater design. The challenge for these firms will lie in finding the right talent and navigating the nuances of working in a public-private delivery model.
- Have degree, will fly 24 hours in coach. While the domestic commercial-development markets will be weak over the next two years, the relatively higher growth rates of international markets will continue to provide opportunities for U.S. design, engineering and environmental firms large and small. Many firms who sought to pursue opportunities in the United Arab Emirates only 24 months ago are already anticipating greater than 50 percent of their work coming from this market within another two years. Critical to being successful in these international markets is the ability to build teams of expatriates, on-the-ground expertise and U.S.-based managers. Those in the latter group function as the “bridge” between the domestic and international operations and are largely responsible for fostering the trust necessary to be successful. The best candidates for these positions are senior managers who are empty nesters. They have got the experience and lack the home constraints that can inhibit international travel.
- Different, not faster, industry consolidation. The recent decline in the stock market from its 2007 highs and the likely bottom-bouncing that it will experience over the next two years as it recovers will change the way the industry consolidates. With the publicly traded industry firms trading between 12 percent and 79 percent below their highs of a year ago, they will have to be more selective in their targeting and deal structures. Given that these firms represent approximately one quarter of the deals that occur in the industry annually, we can expect to see a slowing of deal activity. This will be compounded by the fact

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that many are dealing with far more uncertainty about their backlog and near-term future than they have since 2002. Until the dust settles, many of the top firms will be reticent to pursue merger & acquisition investments. It's worth noting that it took two years for industry deal activity to recover from the last downturn.

- A new capital model for industry. The sudden and significant loss of wealth in the stock market recently and a feeling of uncertainty will hit particularly hard at highly leveraged, "next-generation" owners in our industry. Already trying to figure out how to pay for children's college tuition and mortgages, this group will be less eager to step up to the plate and make the investment needed to fund internal ownership transition plans. Firms will look more and more to private-equity businesses – many of which will be the "winners" in the new financial landscape – to solve their capital needs. This will begin to separate the seemingly inextricable link between ownership and leadership transition that has been at the center of so many firms' perpetuation strategy over the past 30 years.

While you are focused on the short-term and immediate challenges of this slowdown, be sure you and your team are also aware of the bigger-picture changes and transitions that are occurring in the industry. By positioning your firm to take advantage of these, you will increase the chances of success in the future. •

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