

Professional Services Management Journal

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Business Development Costs Expected to Jump Again This Year

by Dan Daniels, PSMJ Survey Editor

Business development costs as reported by the participants in the 2009 PSMJ A/E Financial Performance Survey include the raw labor salary of full-time marketers and other staff members assigned to work on marketing proposals, presentations, etc. The costs of brochures, travel, advertising, printing, advertising, and public relations are also included. These costs are compared with several key indicators but the most common benchmark is the ratio of total business development costs to net revenues.

Historical trends

As Figure 1 indicates, the trend from 1997 through 2002 indicated that firms were spending a smaller percentage of their net revenues pursuing new business. In 2003, this trend indicated a dramatic reversal as the impact of the economic slowdown took hold. However, the trend over the past six years indicates a smaller and smaller percentage of net revenues being allocated to new business development each year. The median is 3.7 percent, a slight decrease from 2008's results. The current percentage is more than 2 percent below the peak values of the mid-1990s and is now at the lowest percentage of the past 25 years.

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New Market, New Frontier: How Do You Forge Ahead?

by Karen Compton

Twentieth century engineer and investor Charles Kettering said it best, "There exist limitless opportunities in every industry. Where there is an open mind, there will always be a frontier."

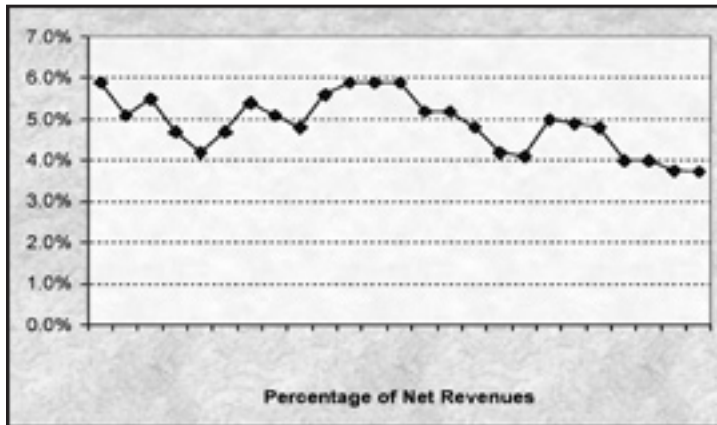
Architecture, engineering and construction are, after all, other industries. And, new market sectors are nothing, if not the new frontier. But, the looming question appears to be, "How do I move my firm into new markets?" when the task is daunting enough under the best of economic conditions. Having transitioned firms into new markets for almost 10 years, there are three guiding principles:

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Business Development Costs Expected to Jump Again This Year (continued from page 1)

With the economy in the middle of another slowdown/recession, we expect this benchmark will indicate that most design firms have increased their relative commitment to business development efforts in order to maximize their opportunity to obtain new business.

Figure 1
Business Development Costs

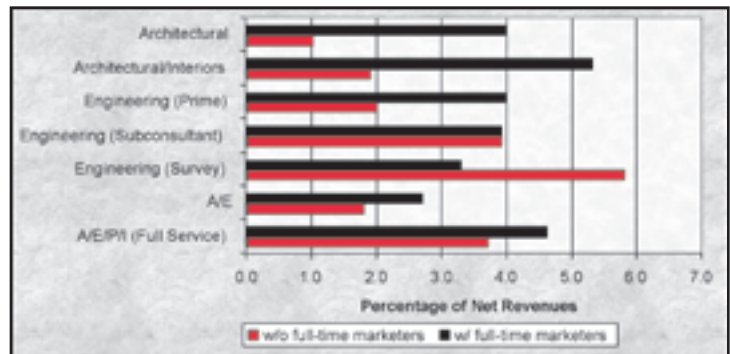


Two organizational arrangements

Design firms use two organizational arrangements for managing their business development efforts. Some firms dedicate specific staff personnel totally to the business development effort (i.e., “with full-time marketers”). In addition, these firms use other staff members on a part-time basis to work on specific proposals, presentations, etc. In an alternative arrangement, firms do not designate any full-time marketers, but rather only involve members of the staff on a part-time basis (i.e., “without full-time marketers”).

These two approaches can result in very different levels and allocations of business development expenses. Because firms continue to organize along these two different lines, we analyze survey data reported by each approach. Figure 2 provides a comparison of business development costs with respect to net revenues for the service-type peer group of design firms. In most situations, the firms designating full-time marketers spend a higher percentage of net revenues on business development activities. In addition, the firms without full-time marketers are usually smaller in size.

Figure 2
Business Development Costs Comparison



Some additional thoughts on business development costs

Many firms in the design profession report business development costs that might appear lower than expected for several reasons:

- Government procurement regulations disallow a portion of business development costs by designating them as unrecoverable expenses. Firms doing a large portion of their business with government clients find ways to minimize business development time and costs associated with these unrecoverable expenses in order to reduce these unallowable costs.
- There is a tendency for senior-level managers to be less accurate when preparing their time sheets. Many of these senior people spend a considerable percentage of their time performing business development activities, but their time is charged to general overhead accounts rather than to business development costs.

Our experience shows that, when comparing firms that utilize these typical recording methods with firms that make the effort to fully record their accurate business development costs, differences of 1.5 percent to 2 percent of net revenues can be demonstrated. Firms that make the effort to fully record their business development costs should add 2 percent to the survey benchmarks. We believe that these results will reflect the more typical approach of the potential underreporting these expenses. ■

For more information on the 2009 PSMJ A/E Financial Performance Survey, call 800-537-7765 or go to www.psmj.com/publishing.

PSMJ thanks Dan Daniels, PSMJ consultant and survey editor, for contributing this article. He can be reached at ddaniels@psmj.com.

New Market, New Frontier: How Do You Forge Ahead? (continued from page 1)

1. Know the core competence of your firm.

Competencies are skills and abilities that individuals possess. For many principals, partners, and business development professionals, we are unaware of the depth and breadth of our colleagues' competencies. Expediency has dictated that we rely on outdated or incomplete project sheets and resumes to "tell the story" of our firm and its members.

It's one thing to know that John (a market leader) has a background in market rate condominium or apartment design, which can be applied to bachelor enlisted or family housing. It's another to know that Tim (a top notch doer) has the ability to develop preliminary feasibility data that might prove useful as you consider moving into the design/build residential sector.

So, how do you find out? Ask. Set up 20-minute interviews with your "market leaders" and top-notch doers. Market leaders are people who have sufficient stature to control an entire market within your firm or one of your major offices. "Top-notch doers" are outstanding producers when compared to others of similar position and experience level. But, they're not necessarily the most experienced people. As a result, little is known about their backgrounds and skills.

2. Know the rules. For the last five to seven years, many firms have invested substantial resources in the private sector— retail, hospitality, mixed-use, residential. In bear times, the private sector was good as credit and finance allowed for the expansion and growth of this side of the balance sheet. But, in bullish times, that we find ourselves in, many have considered entering the public sector— cities, counties, school districts, municipalities and, yes, the fed. But, you need to know the rules. Federal work is largely governed by the FAR (Federal Acquisition Regulation). The FAR outlines everything from how selection processes are conducted to what is allowed and disallowed in your overhead rate state, city, and county work is largely governed by the relevant contracts code. Like the FAR, it outlines the "dos and don'ts." If public work is in your future, know the rules that govern it.

3. Know what you don't know (and figure out how to overcome it). Any strategist worth their salt is going to tell you, "You must know your competition." Truth is, I'm no different. Find out who your competition is. It is not enough to say the "usual suspects." You need to know who are your competition; what are they selling into the market (that you can't); and, most importantly, what can you offer from, your varying perspective, that they don't. Coming into a new market can be overwhelming. So, don't rule out the need to team with a "lesser" competitor, a formidable ally or a small or minority firm. In this economy, it is far better to have part of something than all of nothing...so put aside the question of "who will lead" and think about "how to win."

As Kettering said, "Where there is an open mind, there will always be a frontier." Keep an open mind. Moving into a new market is an investment of time and resources. So, plan accordingly and be willing to evaluate new people, new strategies and new teams. You might just be able to forge ahead. ■

Karen Compton is principal of A3K Consulting (Glendale, CA), a business development and strategic planning firm specializing in the architecture, engineering and construction industries. Ms. Compton is author of *The Prospector: A Guide to Winning Work in a Competitive Environment*. Contact her at kcompton@psmj.com.

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How Often Do You Meet Your Clients' Expectations?

by David Burstein, P.E., PSMJ Resources Consultant, and Ryan Suydam, DesignFacilitator

Or perhaps more importantly, how often do you fall short of their expectations?

DesignFacilitator has been helping A/E firms exceed their clients' expectations since 2004. Even so, a recent strategic partnership with PSMJ has provided an entirely new look at how firms measure up to clients' expectations.

DesignFacilitator's subscribers are A/E firms whose philosophies include a commitment to collecting client feedback; and they use the Client Feedback Tool to enhance their relationships and delivery of services. In the last two years, these firms have received scores below "Met Expectations" only three percent of the time. Clearly, regular client feedback helps these firms build healthy, prosperous relationships with their clients.

Unfortunately, only a small percentage of A/E firms obtain regular client feedback. To encourage more A/E firms to collect regular client feedback, PSMJ has collaborated with DesignFacilitator to establish PSMJ's *Premier Award for Client Satisfaction*. Since beginning this award last May, a number of A/E firms have entered the contest and provided us with the opportunity to collect confidential feedback from their clients. Early results have provided significant findings. Notably, firms that have no history of regular feedback collection receive "Below Expectations" ratings *more than 10 percent of the time* — more than three times higher than firms who obtain client feedback on a regular basis!

What this reveals is that many A/E firms simply *do not know* what their clients need and expect. And if they don't correct that blind spot, they risk letting their clients become someone else's clients. Collecting client feedback does more than just increase the health of your professional relationships. It also reduces liability risk, staff turnover, and burned-out project managers. In fact, some professional liability insurers have determined that client feedback collection is so important they provide 10 percent premium credits to firms who consistently collect it. Often, these savings alone more than pay for the costs of collecting client feedback.

If you're not sure how to collect confidential client feedback, here's an easy way. Just enter the contest for PSMJ's *Premier Award for Client Satisfaction*. For an entry fee of only \$495, we'll collect and send you confidential feedback from up to 40 of your most important clients. Visit www.psmj.com/surveys/products.aspx?v=item&i=1443 for more information.

Or if you'd rather collect the information yourself, we'll be glad to send you a recommended list of questions to ask your clients. Just e-mail Ed Hannan at ehannan@psmj.com. ■

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Change: If You're a Chameleon, You Will Prosper

The successful AEC firm cannot continue to sell the same old services and price them the same old way. Firms that hold on to the traditional titles of "engineer" or "architect" can expect to perish gradually as traditional services become price-competitive and competitors kill each other off.

The chameleon firm capable of switching services, people, markets, and geography will emerge as the firm of first choice. Such firms adapt strategies designed to invent a continual stream of new services for clients. Because clients become long-term contacts, losing a client is much more expensive than investing in the development of new services.

Move to Consultancy

Our entire industry will soon move from one focused on providing design services to one that places primary emphasis on consulting services. Technology is taking the responsibility for creating drawings out of the hands of humans. In the very near future, the entire drawing process will be automated. Drafting and even basic design itself is becoming a lowest-bidder commodity. This shifts the service model away from specs to smarts. Customers will search out brainpower— that's where the value is. Expect the most profitable design firms to become more like consultants. They understand that production is becoming a

price-competitive commodity sold by the hour after all key design decisions have been made.

Escalating Standards as the Norm

Always remember that everyone in our profession is selling quality design and service—these no longer differentiate your firm's value; they are expected. You provide value when you anticipate clients' needs and help them solve business problems. Previously unrealizable standards of quality and speed are becoming norms just as fast as the new software and hardware that make them possible come into existence. You must meet these standards to maintain value.

World-Wide Strategic Alliances and Nimble Organizations

These same technological advances are making it possible to do business electronically almost anywhere in the world. Start thinking about global strategic alliance opportunities. Allied firms create project teams at the drop of a hat, and can take advantage of foreign economies and time zones. Over the next decade, traditional subcontracting will see decreased success. The most successful firms will be those who can marshal resources from around the globe at a moment's notice. This presents high value to clients who seek the both best and the fastest, wherever it is. ■

ARRA Forms Grow, But Are They Really Required?

by William Fanning, PSMJ Resources Consultant

The Stimulus Act (the American Recovery and Reinvestment Act of 2009) requires firms awarded contracts to report jobs created or saved as part of the accountability provisions of the legislation.

As issued by the federal Office of Management and Budget (OMB), jobs created or saved have to be reported with the following information:

- Project identification, including project type coding as specified by OMB, as they are attempting to monitor by specific funding section of the law.
- Projects are reported through the path of the funding. That means if the funds flowed from a federal agency to a state to a local government to a contract with a private sector contractor, the jobs information is to flow from the contractor up through the applicable agency chain. If you have projects from multiple government agencies, this means you will file a separate report with each agency for just their projects.
- Only prime private-sector contractors have to prepare this report. No matter how many levels of government are in the reporting chain, jobs reporting is supposed to stop at the level of the first contract with the private sector.

PSMJ has heard some reports that some state and local agencies apparently have expanded these reporting requirements, seeing this as an opportunity to expand data gathering beyond the scope of the requirements. We have heard some agencies believe private-sector subcontracts have to be reported, or that additional demographic data on the jobs created or saved is required.

While we believe in the importance of data for tracking results, the simple fact is that any additional reporting requirements beyond the legal requirements adds to your cost of performing work.

If you find requests for information beyond the ARRA requirements, we suggest you choose from the following list the actions you consider appropriate for your contract and client:

- Leave blank any information requests beyond the basic jobs created and contract information.
- Make inquiries of the agency sending you the form for their additional laws or regulations that expand upon the basic ARRA reporting. Simply because someone develops a form or adds information to a form does not make it a requirement.
- Ask the client for a contract change order for your time. After all, your client is buying your time and effort, and if they want additional information, they should pay for it.

Obviously, how you handle these requests is important to your client relationship, so we advise prudent actions on your part.

However, the purpose of the Stimulus Act was not to have the creation and preparation of forms as the primary jobs creation activity. ■

PSMJ thanks William Fanning, a PSMJ Resources, Inc., consultant, for this article. Bill can be reached at 770-971-7586 or wfanning@psmj.com.

COE: Strategic Planning

At PSMJ's 2009 *Circle of Excellence Conference* in Orlando, Florida, panel discussions centered on a variety of hot-button issues facing A/E firms, including the challenges of trying to strategically plan for the future while navigating the uneven economy.

And given that the panelists were leaders of firms who ranked in the top 20 percent of firms participating in PSMJ's *Financial Performance Survey* that achieve the best overall business performance in the A/E industry, their insights can help your firm improve its operations and its bottom line.

After all, the PSMJ Circle of Excellence distinction is awarded based upon a combination of 11 performance benchmarks that measure business operations in terms of profitability, growth, cash flow, overhead control, business development, project performance, and employee satisfaction. As a group, PSMJ's 2008 Circle of Excellence firms averaged 21 percent revenue growth, 27 percent profits (as a percentage of net revenues) and less than 10 percent employee turnover!

How do you turn the "fluff" of a strategic plan into actionable items that people can get excited about?

"Write the plan down, develop the action plan, and assign the best people to do the work. What if the action is to open a branch office and the best person doesn't want to do it? What do you do? Use the strategic plan as a way to develop an emerging leaders-class of staff. Assign each of them a mentor—the experienced principal that may not want to carry out the action from the plan—and let the emerging leader provide the energy. Develop mini business plans for them, go through detailed steps, and make it happen. Mentors can be chosen or, in some cases, assigned. We'd rather offer a choice, but we are looking for the best fit so sometimes we pick a mentor. We adjust target utilization metrics for the emerging leader to give them an opportunity to grow their leadership capacity. The reward for the emerging leader class of staff is, if they can develop new markets or start a successful branch office, it's the shortest route to principal."

When the best-laid strategic plans get derailed, how do you get them back on track quickly without too much stress or disruption?

"We needed a plan to move our firm from a 'family business' to a corporate structure— people in

the firm wanted it and the strategic plan allowed them to see it. There was a partner who was against that shift, so we used the strategic plan to start the process of firing the partner."

"We used our strategic plan to show how closely aligned our principals were and how aligned they needed to be. Principal alignment is most important— but so is diversity of opinions about how to reach strategic goals. The strategic plan can identify the difference between diversity and non-alignment. This is especially critical as the firm grows."

"As markets change, the strategic alignment of the principals also needs to change. We need to look at markets that are on the way up and align ourselves in a way that helps us capture them. The diversity that principals offer helps the firm avoid wide variability in profits. Capitalize on diversity by brainstorming approaches to strategic goals, but make sure you rein it all in at the end of the day. It is very important to make constant face-to-face course corrections to maintain principal alignment— it's OK if one of your principals wants to go off on a tangent— you need to always debate about it because it could be that you and the other principals want and need to go out on that tangent, too."

"Assign a champion to each major strategic goal so that all of your key people are pulling in multiple directions all toward the same goal. Match people's gifts and talents with goals. For example, you can make principal alignment on developing branch offices a strategic goal. Part of the strategic plan is providing the opportunity to get behind that plan. This is consensus strategic goal planning— and it's important to define because it is not necessary for everyone to agree with every strategic direction the firm takes."

How do you quantify strategic planning success?
Well, you don't have to do everything in the plan— people leave, conditions change— sometimes you need to change course for the better."

How much time should you spend on strategic planning?

"At first, we didn't spend enough and it was frustrating. We budgeted more for next time and hired someone to come in and tell us the truth. We didn't want a love fest— we wanted to be challenged and conflict

in order to grow. We spent a little less than 1 percent of our profit (1.5 percent to 2 percent of gross revenue) for an outside facilitator and an outside venue. You need to spend the money if you are spending the time.”

“Timing is the most important thing when setting up strategic planning. It costs less to do it when you think there is nothing wrong— you are better off not waiting for a crisis. You also need to convince other principals and owners that strategic planning is worth the time and money.”

Who should participate in the strategic planning process?

“Principals and stockholders— no non-owners. We were a little paranoid about how we communicate the plan to the others in the firm— we thought they’d have no confidence in what we planned to do. Just the opposite was true— the employees loved it and were very positive about the goals.”

“We bring in a number of partners and associates— we wanted to balance the group and not have too many people. It worked out well to have the core businesses all represented— people who can bring ideas and also implement ideas. We also wanted to bring people with differing viewpoints. We make annual presentation of

the plan to the employees to show changes. We cover the high points and core concepts— but we don’t go into too much detail.”

How do you keep strategic planning implementation on schedule when other projects seem to always take priority?

“Linkage is the key to getting strategic planning implementation accomplished. Set clear objectives and assign action items down the line— make every employee responsible for something. At evaluation time, make half the evaluation be about traditional performance metrics and the other half be about completing strategic planning objectives.”

“Turn accomplishing strategic planning implementation into a reward-based initiative.”

“Sometimes, people do not accomplish their strategic planning tasks, but do accomplish their strategic planning goals. Some people are just good at identifying strategies and vision and always operate with their strategic planning goals in mind. They do lots of little things every day that make a positive impact on getting their aligned goals accomplished.” — **BRUCE LYNCH**
(blynch@psmj.com) ■

New AASHTO Audit Guide Available

by William Fanning, PSMJ Resources Consultant

The final draft of the revised AASHTO Audit Guide is now available for review and downloading. It is available at: <http://audit.transportation.org/?siteid=43> and select “Uniform Audit and Accounting Guide 09-11-09 (No Markup)” to open the PDF file, which can be saved to your computer.

This is the version expected to be adopted, first by the AASHTO Audit Subcommittee (by the end of September), the full AASHTO group (at its October meeting) and then to take effect January 1, 2010 and become applicable to all costs and audits for years starting on or after this date. FHWA is expected to proceed with rulemaking in 2010 to make this guide part of the rules applicable to federal grants.

Firms with DOT clients should pay particular attention to the chapters on timekeeping, labor

costing, and compensation. If the firm has its own CPA overhead audit, it should have its CPA review the chapters on audit standards and the audit checklist.

The major beneficial change for firms is this manual will be adopted by all states, and will apply to all states. This will greatly reduce the individual overhead rate schedules now required because so many states have policies that require unique treatment of costs just for the individual state. The guide clearly states that any deviations from FAR (or this guide) must be based on state law. ■

PSMJ thanks William Fanning, a PSMJ Resources, Inc., consultant, for this article. Bill can be reached at 770-971-7586 or wfanning@psmj.com.

Feedback

Frank Stasiowski's article "Fifteen Ways to Achieve 69 Percent Utilization" in the July issue of *PSMJ* prompted this response from Jeff Bennett, president of THA Architects Engineers:

"Frank, THA Architects Engineers has been a subscriber for many years and I've used *PSMJ* for a lot of good information to help improve our business. But I've got to say that your article 'Fifteen Ways to Achieve 69 Percent Utilization' seems more blunt than usual and totally oblivious to the current economic climate, especially here in Michigan. Written in better times, many of these suggestions would play well and wake up the fat cat. But when firms are desperately searching for ways to keep their businesses open and hold on to key employees by taking measured losses, your suggestions border on pie-in-the-sky if not downright insulting.

"I've never responded to articles in the past, but I guess you pissed me off. (Yeah, I'm the CEO you suggest should be fired.) Sure, *PSMJ* is all about profit centers and being efficient, but even the Grinch has to understand there is a time for setting aside profits for the bigger picture."

In response, Frank wrote the following:

"Dear Jeff,

"Your note truly hits home...and your frustration with the current economic situation speaks for thousands of other firms that are where you are.

"Yes, we are VERY concerned about those who have suffered the most serious economic hurt in our generation, and yes we do understand those that are in dire straits even though this particular article appears to address a different group. I wish I could PERSONALLY give everyone a dozen new projects, but I can't.

"At *PSMJ*, for the past four decades, we have watched the ups and downs of our profession going through the economic gyrations caused by the acts of others, but when we pen articles such as I did, we accept the responsibility that one of our roles is to provide the challenges, inspiration, hope, and a vision for those that will emerge from this economic battle stronger due to the adversity. And, yes, even in these times, we do see many firms that are prospering beyond their wildest dreams perhaps out of just being in the

right place at the right time for this type of economy, and many are achieving higher than 69 percent utilization right now.

"With 'Five decades of design' behind your firm, as your e-mail signature suggests, I know you understand how hard it is to fight this current battle, but now is the time to fight on...as it is always darkest just before dawn.

"If my article 'pissed you off' then hopefully it has also inspired you to fight and develop the toughness to keep on going...even if just to prove us wrong. If it has, then I have done my job, whether the method is acceptable to you or not. We can all sit and just hope that things will just get better, but that may not happen. Or we can just keep doing things like we used to in 2006 and hope for a different results, but NOW IS THE TIME FOR CHANGE...and, as CEO, you must set the VISION for CHANGING YOUR FIRM.

"In the next two decades, an additional 100-million-plus citizens will occupy our great country, meaning thousands of new and renovated facilities will need architects for their design and construction. This current 'temporary' economic setback begs that you and your firm be there for those future needs, so please do whatever necessary not just to survive, but to set a course and a VISION for CHANGE for your firm that will help achieve for your clients the things necessary to be part of our countries future.

"Your vision for your future is your 69 percent utilization. Set it high and go get it!

"For our small part, we will keep forcing everyone to THINK, to QUESTION, to GET PISSED OFF, and hopefully to react by ACTING WITH FORCE to move their own firms NEW VISION forward.

"Please always write to us whether you agree or disagree with our views.

"Sincerely, Frank." ■

If you'd like to comment on this or any other article, drop us a line at ehannan@psmj.com or fstasiowski@psmj.com.

If the Government is a Client, Should You Reconsider Company Cars?

by William Fanning, PSMJ Resources Consultant

Having a company-provided car is a popular perk, usually reserved for upper management. It offers potential tax savings to individuals.

At a recent PSMJ webinar, the question posed in the above headline was asked when we pointed out that this may be one of the most common “mistakes” firms make.

However, for firms that have the government as a client, this popular perk and tax perk may not be in the firm’s best economic interest. Here is why:

1. The car’s primary operator is put into the mileage log “business,” including all mileage, who was in the car and the purpose of the trip, as well as how the mileage is to be assigned to expense accounts. For those individuals in upper management who do not like timesheet preparation or documenting expenses on the company charge card, this mileage log requirement may not sit well. Note the requirements for government contracting purposes go beyond what is required for IRS purposes, and if only the IRS requirements are met, the total cost of the vehicle may become unallowable cost.

2. The firm must keep additional records to determine the actual cost rate for the vehicle per mile. Simply using the standard IRS rate does not accurately reflect costs in the firm’s cost accounting records. Since the IRS rate can be used if a personal vehicle is reimbursed to employees based on mileage driven, this rate determination is an added cost for firms with company-owned vehicles.

3. There is likely some personal mileage in company vehicle use (commuting, etc.) and this cost is an explicitly unallowable cost for government contracting purposes. Not only does the firm “lose” any reimbursement for this cost, the firm cost base for determining profit (fee) is reduced, thus a firm “loses” this cost plus fee for the personal mileage.

4. You may set up some inconsistency in your accounting records for business mileage reimbursed to employees (and allocated to projects) and company vehicles that are costed to overhead (due to lack

of detailed recordkeeping), resulting in the total disallowance of the vehicles cost, or not being able to bill for employee personal mileage reimbursement.

All of these choices either require additional recordkeeping cost, or reduced government contract amounts, so there is a cost to the firm beyond the cost of the vehicle.

These possible downsides to company-paid vehicles only apply to government contract costs, so if you work only for private-sector clients, only the much simpler IRS rules are applicable.

If you do some government work, you need to assess what the requirements will cost you in lost costs and fees. Any government work causes all of your cost records to meet these requirements, but if you perform a low volume of government contracts, the resulting unallowable costs may be minimal.

There are alternatives to company-owned vehicles, such as car allowances incorporated into salary, and specific car allowances for users who are expected to have unusual usage that is beyond typical personal vehicle use.

An example for the latter is an allowance to “upgrade” a personal vehicle to a four-wheel-drive vehicle if the employee visits a lot of construction sites with off-road use.

Our advice is that company cars are not necessarily “bad” but firms should consider the full cost for additional recordkeeping in deciding whether this perk is worthwhile. ■

PSMJ thanks William Fanning, a PSMJ Resources, Inc., consultant, for this article. Bill can be reached at 770-971-7586 or wfanning@psmj.com.

The Challenge of Reasonable Costs

by William Fanning, PSMJ Resources Consultant

The new Audit Guide adopted by AASHTO makes a significant change in several areas of cost allowability.

The most pronounced of these is “comparable firms” and the subjective assessment of costs that includes. Inherent in this comparability factor is your ability to document (in terms of file information that auditors can review) why your firm costs are reasonable.

In the past, many states have had clear definitions of “reasonability” such as the percentage of salary that can be paid as bonuses, labor utilization rates, and other costs.

The most notable of these comparisons impacts personal compensation. Now you have to document your bonus and incentive plans, and clearly define what part of profits are paid to owners for being owners and what part is based on performance. Can you document how your firm made these decisions?

Other areas will also increase the records and justification requirements to demonstrate that you are, in fact, a prudent business person.

Take for example providing lunches for in-house “lunch-and-learn” sessions. Most firms know these are cost-effective since the cost of the food is more than offset by the payroll savings when compared to paying the attendees for an hour if the training was held during working hours.

Documentation can be fairly simple:

- A policy in the employee manual that lunch and learns held during the lunch break are not hours for purposes of payroll. Since the employee benefits from the trainings, as well as being fed, this is permissible.
- A listing of the employees attending
- A brief memo on the training topic(s) included in the meeting.
- Attach the list of attendees and the meeting record to the bill for the food (or list the charge on the meeting records)

In this example, when an auditor examines your records a few years from now, you will be able to show that the lunch expense was in fact a cost savings, and thus a reasonable and allowable cost.

If all you have is the bill from the deli (or pizza place) with no record of what the training was, or who attended, it will be difficult to demonstrate that the lunch bill was a reasonable, and thus allowable, cost.

Ask yourself if your records can support the costs, or if you cannot even produce a record, other than the food bill, of what the training or attendance was at a training session.

We noted several instances cited in the Office of Inspector General (OIG) report on DOT contracting firms where this lack of support caused the costs of food to be considered to be unallowable.

We believe most firms have a reasonable basis for the money they spend. However, we often see that this “reasonable at the time the decision is made” does not provide adequate “proof” in the future when a contract auditor wants to see why you spent the money, and why that decision was reasonable.

Prior to the new AASHTO Audit Guide, some DOTs simply mandated that all such in-town meal expense was unallowable cost, but that is no longer the rule.

It is your responsibility to have support for your costs. While some are easy to document (such as a lease that documents your rent payments), certain costs require a better paper trail than simply a check written (or a credit card invoice).

Being reasonable is a decision firm managers make every day. Supporting these decisions at some point in future years now becomes part of the reasonability test. ■

PSMJ thanks William Fanning, a PSMJ Resources, Inc., consultant, for this article. Bill can be reached at 770-971-7586 or wfanning@psmj.com.

Burns & McDonnell Succeeds in a Recession

by David Burstein, P.E., PSMJ Resources Consultant

Burns & McDonnell is one of only three A/E firms named to *Fortune* magazine's list of "100 Best Places to Work." Quite an honor. Yet more remarkable is the firm's performance, even during the darkest days of the current recession.

To find out what they do differently from the average design firm, we interviewed Arnold Olender, associate vice president/regional manager of the firm's Atlanta office. Here are some of the things we learned:

1. Burns & McDonnell is 100 percent ESOP owned. But, unlike most other ESOP-owned firms, Burns & Mac (as they are known) actually treats their 3,000 employees like owners. Each employee has the opportunity to be part of monthly financial meetings in which the profit/loss is presented on practice and regional levels. Additionally, the chairman and CEO or a board member presents a full financial report to every employee twice a year. This atmosphere of openness has created an unusually high level of trust between employees and managers.

2. The firm's core values are strong and well-understood. Burns & Mac is very much a "client-centered practice" in which primary emphasis is on the firm's clients with a very strong secondary emphasis on its employees. In fact, the corporate mission statement is "Make Our Clients Successful." The firm values hard work and reward results. Perhaps due to the firm's Midwestern roots, its culture also includes a large

dose of humility. This combination leads to consistent financial performance and high levels of job satisfaction by employees who are strongly aligned to this culture.

3. Set the bar. By consistently setting and meeting achievable goals, employees have become committed to them and benefited from them. This has created a "virtuous cycle" of performance, and related expectations and rewards.

4. Burns & McDonnell has gotten "ahead of the curve" in design-build. Whereas other design firms have fought this trend or tried to ignore it, Burns & Mac has embraced it. Not only is the firm eager to take the leadership role on design-build projects, but it is committed to being the best at executing it. An indication of this commitment is the firm's training course that every qualified project manager must pass in order to be allowed to manage design-build projects. And the firm won't take on a design-build project unless it has a qualified design-build PM to manage it. Finally, the employee-ownership mentality creates a cohesive, proactive project team between the engineers and the construction professionals.

Can your firm learn from Burns & McDonnell? If so, perhaps you will be on *Fortune* magazine's Top 100 list next year! ■

David Burstein is a PSMJ consultant and seminar leader at PSMJ's *A/E Principals Bootcamp*. He can be contacted at 770-723-9651 or dburstein@psmj.com.

Balfour Beatty to Buy Parsons Brinckerhoff

The London, England-based engineering firm Balfour Beatty said as this issue of PSMJ went to press that it will acquire Parsons Brinckerhoff for \$626 million and will finance the deal with a rights issue.

Parsons Brinckerhoff CEO Keith Hawksworth announced that the company's board of directors and executive committee are recommending to shareholders to approve the acquisition for \$626 million. PB's shareholders' meeting will take place on October 21.

"We have for some time sought a strategic partner that complements the services we provide which would assist us in our ongoing global expansion," Hawksworth said in a company-issued press release.

James Lammie, PB's chairman of the board, added, "Balfour Beatty has agreed that Parsons Brinckerhoff will retain its name and organizational structure and operate as an independent but wholly-owned subsidiary."

The acquisition must be approved by the shareholders of both organizations.

In 2008, PB had revenues of \$2.34 billion and approximately 13,000 in more than 100 offices worldwide. Balfour Beatty has approximately 40,000 employees and last year had revenues of approximately \$15 billion.

Upcoming events: October 1 — November 7

SUNDAY	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SATURDAY
				1 A/E/C Project Management Bootcamp October 1-2, 2009 Kansas City, MO	2	3
4	5	6	7	8	9	10
11	12	13	14	15 A/E/C Project Management Bootcamp October 15-16, 2009 Denver, CO	16 A/E/C Principals Bootcamp October 15-16, 2009 Orlando, FL	17
18	19 CEO Roundtable: Mergers and Acquisitions October 19-22, 2009 Maui, HI	20 CEO Roundtable: Ownership and Leadership Transition October 19-22, 2009 New York, NY	21	22 A/E/C Principals Bootcamp October 22-23, 2009 Vancouver, BC	23	24
25	26	27	28	29 A/E/C Project Management Bootcamp October 29-30, 2009 Seattle, WA	30 A/E/C Principals Bootcamp October 29-30, 2009 Chicago, IL	31
November 1	2	3	4	5 A/E/C Project Management Bootcamp November 5-6, 2009 Orlando, FL	6 A/E/C Principals Bootcamp November 5-6, 2009 San Francisco, CA	7

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PSMJ CEO Roundtables

Mergers & Acquisitions Roundtable October 19-22, 2009 • Maui, HI

The insights you receive come from qualified A/E/C experts who work with buyers and sellers on a daily basis. Over these days of intense training and close interaction with instructors and peers, you will master the process of completing a successful merger or an acquisition.

Investing in these days of highly productive and interactive training ensures that you properly address each critical issue involved in a merger and acquisition, including: strategic planning for divesting, post-sale integration planning, proper cultural matching, key personnel retention and more. Whether you are contemplating a sale, or want to expand your business through acquisitions — this is your opportunity to understand the critical issues that really impact success rates.

Ownership & Leadership Roundtable October 19-22, 2009 • New York City, NY November 9-12, 2009 • Austin, TX

Transition happens whether you want it or not. Don't get caught unprepared when this extremely sensitive and crucial change occurs. Join us for a structured and logical approach to develop a successful transition plan for your firm and actions you need to put a leadership development program in place.

This is YOUR chance to take advantage of this one-of-a-kind opportunity to put together an actual transition plan that achieves every single one of your personal and professional goals. You pull all the pieces together with a clear goal and direction. You know exactly the steps you need to take to execute a smooth ownership transition in your firm. You go from deciding how to sell, to whom and when, to walking away with a plan and a great feeling of accomplishment.

Private One-on-One Consultations

Reserve yours today. Each CEO Roundtable offers you the opportunity to reserve a private one-on-one consultation with a Roundtable Leader to discuss your personal concerns in greater detail. To take advantage of this tremendous opportunity call (800) 537-7765 today! Space is available on a first-come, first-served basis.

PSMJ CEO Roundtables provide you with knowledge and experience to enhance your leadership, boost your firm's performance, and strengthen its position in the A/E/C industry.

YES! Reserve my place at PSMJ's CEO Roundtable, select an event below.

- Mergers & Acquisitions, **October 19-22, 2009 – Maui, HI**
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Hot Markets Conference

Connecting with 2010's Best Clients

December 3-4, 2009 • Washington, D.C.

By now, you've hopefully heard of **PSMJ's Hot Markets Conference** scheduled for **December 3-4 in Washington, D.C.** If you haven't, then consider yourself officially warned: **Missing this conference would be a grave mistake.**

We don't need to tell you how challenging the last year has been for everyone in the A/E/C industry. The good news is that 2010 will be a huge comeback year! But only for a select group of the know firms. Unfortunately, not everyone will survive.

Attending this conference will give your firm an incredibly unfair advantage over your competitors. You will:

- Take home HOT actionable leads on which you'll be able to build your marketing plan for the next year
- Hear directly from the decision-makers at organizations ready to spend BIG money on capital projects
- Rub elbows with these potential clients and discover precisely what they'll be looking for from A/E/C firms responding to their RFPs
- Get valuable face time with some of the country's most successful directors and principals to discuss strategic partnership opportunities
- Learn about even more emerging A/E/C opportunities from PSMJ's experts as they share up-to-the-minute market data, trends, and research on top-performing firms

PSMJ's team of market analysts know the hot sectors and the need-to-know people for the upcoming year. Currently, PSMJ is contacting an impressive list of potential speakers and has so far garnered a roster of high-powered speakers for this exclusive event. You can't afford to miss this opportunity—especially now that we are providing scholarships for our valued PSMJ newsletter subscribers to attend our \$2,000 conference as our guests for **FREE**. Call PSMJ's Education Department (800) 537-7765 to see if you qualify for this incredible opportunity. What do you have to lose?

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PSMJ's A/E/C Principals Bootcamp

What Secret Do All Successful Firms Share?

It's easy to be profitable in a great economy. When your proposal hit rate is high and your backlog is overflowing – it's all smooth sailing! The firm practically runs itself...very successfully. But when the market turns south and the waters turn rough, you really find out how well a firm is managed.

Why Attend the Principals Bootcamp?

If you are a leader of a firm affected by the current economic environment, you can't afford NOT to attend this Principals Bootcamp! Just think of all the valuable information you will miss out on if you don't...

PSMJ's information-packed bootcamp compresses a wealth of experience and insight into two days. By attending, you gain an understanding of the techniques and strategies of today's most successful project leaders, and practical advice you can use to improve multiple aspects of your firm. We also spend time discussing how the best firm leaders are navigating the most challenging economic climate in decades, and come away with ideas and dynamic approaches to the challenging times that your whole firm can put into action right away, to ensure survival.

Who should attend?

This bootcamp is for anyone who wants to be a successful design firm leader and is motivated to help their firm succeed in this new economy. There are key steps and processes that all design firm leaders should know to effectively run your firm and make your clients happy. This bootcamp arms you with the necessary confidence, methods, forms and knowledge to do this.

Key Benefits

- Accelerate the development of your current and future principals
- Identify an appropriate growth strategy for your firm
- Get tested tactics for keeping your clients loyal
- Determine your optimum price with our financial model

Team Discount

After attending PSMJ's A/E/C Principals Bootcamp, you are going to want to rush back to the office to implement all the new ideas you've picked up. But it can be tough changing the tide by yourself...so why not bring your fellow Principals along with you and participate as a team! We find that firms who register groups of people are able to return to the office and lead teams consistently and powerfully. If success is what you are interested in, you must bring your senior management team along! To encourage this, we offer discounts for multiple attendees from the same firm attending this bootcamp. For more information, call PSMJ's Education Department at (617) 965-0055.

“‘Bootcamp’ may be the wrong term – it should be renamed ‘Principals’ Survival School’ and all principals (new and old) should attend.”

— Ron Milam, Principal, Fehr & Peers

- YES! Reserve my place at PSMJ's Principals Bootcamp, select a location below.**

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A/E/C Winning Proposals & Presentations

“Course gave me lots to think about and many considerations for improving our proposals and presentations – which could improve bottom line.”

— Kim Lutch, Marketing Manager, Becker Morgan Group

Do you think you know everything there is to know about creating winning proposals and presentations? Unless your hit rate is 100%, there is always room for improvement. During this two-day seminar, PSMJ enhances your learning experience with “real world” knowledge of a solid, proven system for preparing proposals that resonate with clients. We give you tips and proven strategies to increase your hit rate and become more successful at bringing home the work. Attendees learn:

- The truth about the client selection process
- Why a win strategy is so important and how to develop one
- How to get principal buy-in early
- How to really customize your proposals and presentations
- How boilerplate copy actually hurts your chances
- How to make your proposal memorable
- How *PowerPoint* can decrease your chances of winning a project

Only at **PSMJ’s Winning Proposals and Presentations seminar** do you learn new strategies outside of conventional approaches to revitalize your firm’s performance. You learn the do’s and don’ts of both proposals and presentations, to make your firm stand out. Spend two days brainstorming, working in teams and analyzing actual case studies and a broad array of real-life experiences.

Even if you have attended in the past, you should come to this seminar. We continuously upgrade and update the material – and now, in the new economy, it is more important than ever to not only refresh the basics, but learn new strategies and techniques. So if it’s been a few years since you attended our **Winning Proposals and Presentations seminar**, we invite you to come again. And this time, bring your entire marketing team (or even a principal) so the whole team can be even more effective in implementing these ideas within your firm.

Who Should Attend

PSMJ’s Winning Proposals and Presentations seminar is for anyone who wants to stop running around in circles chasing new work and actually win new work. You learn how to create high-powered proposals and presentations that win you profitable new contracts with the most attractive clients, and learn a whole new approach to making proposals and presentations focused on what the client wants to hear. This seminar is extremely useful for all levels of marketing and business development staff, as well as those principals, directors, and managers who lead proposal strategy and execute key client presentations. Spend two days with us, and we guarantee you walk away as a much more effective marketer and manager.

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