

THE ZWEIG LETTER

ON THE RECORD

Growth a top concern in 2012

A/E/P and environmental consulting industry firms recognize that growth is linked to profitability and share their methods.

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According to ZweigWhite's 2011 Principals, Partners & Owners Survey, the most cited (14 percent) business issue for principals is firm profitability/growth performance.

ZweigWhite's 2011-2012 Successful Firm Survey found that fast-growth firms (those that have had an average annual revenue and staff growth of 20 percent or more for the past three years) have a higher net pre-tax, after bonus profit/loss on net service revenue, at a median 10.3 percent, than all firms, at a median 3.2 percent. Returns on owners equity (pre-tax, after bonus) were also higher for fast-growth firms, at a median of 33.1 percent, compared to a median 11.1 percent for all firms.

So, we asked our members: When all the odds seemed stacked against you, how do you continue to grow and stay profitable?

Here's what two of them said:

Nicholas DeNichilo, president and CEO, **Hatch Mott MacDonald** (Millburn, NJ), a 2,100-person full service engineering firm, says that despite the state of the economy, his firm will meet their budgeted financial objectives in 2011, with revenues and profit showing significant year-over-year growth.

"Growth in revenues and profits during periods of expanding economic activity requires a competitive business model, proper market positioning, and competent management. As they say, 'A rising tide lifts all boats.' However, during down cycles, post-recessionary periods, and times of government



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budget deficits, growth can be very difficult to achieve, in spite of sound fundamentals," DeNichilo says.

"At Hatch Mott MacDonald, we have managed year-over-year organic growth in net revenue and operating profit in the range of 7- to 14-percent during the most recent

most importantly, to assess our firm's market positioning so that we can focus only on those sectors, services, and geographic areas in which we can reasonably expect to increase our market share. In other words, we respond to market trends while playing to our strengths. After all, to expand during lean times, one must take market share from someone else – not easy in a highly competitive environment," DeNichilo says.

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down cycle. We have managed this, in large part, because of a well-diversified practice, including our market sectors, service offerings, and geographic platform. We have also been careful to manage the revenue and cost ends of the business, as both affect growth and profitability. In making an assessment of the markets in which we operate, we seek to identify those areas that are negatively impacted by market forces. In recent years, local and state budget shortfalls have affected our municipal business, land development business, and architectural business, particularly in certain regional markets. Anticipating the business impacts of these trends, we immediately shift investment away from those areas, being careful to maintain sufficient core strength in all markets and geographic areas that have long-term potential," he says.

"It is important to identify areas of potential growth during lean years and,

Hatch Mott MacDonald is well-positioned has caused us to prioritize three major areas in our business planning for 2012. The first is our gas pipelines business, which has expanded to become a core service offering in the past decade. Our gas clients will continue to seek to extend their transmission networks to move natural gas from gas-bearing shale deposits in North America to points of use. With natural gas usage for power production projected to significantly increase in the next 20 years, we see this as a market sector with great long-term potential," he says. "The second area in which we will focus during 2012 is our Ports & Harbors business. We have experienced significant growth and see continued opportunity in providing infrastructure to support resource-extraction industries, particularly in Canada. Our 'pit-to-port' concept involves providing the infrastructure needed to seamless-

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ly deliver product from the mines or gathering areas to the port for shipment. This concept helps to integrate a number of Hatch Mott MacDonald's core skills, including rail and highway engineering and bulk materials handling, in addition to the need for waterfront and waterside improvements. Further driving the ports business in the near future is the need for ports to upgrade their facilities to handle the new larger container vessels that will be traversing the widened Panama Canal. Effectively, the ports will be competing with each other for container cargo throughput. The use of inland waterways as highways to interior ports is also expected to increase and require improvements in connecting infrastructure and port terminals. The third growth area is rail infrastructure. Changes in population patterns, traffic gridlock, and the condition of current infrastructure will require a continuing significant investment in rail transit. Freight rail has been quietly growing to pre-recession levels, with positive capital investments being made. The outlook further improves when considering the synergies between rail and port improvements. Investment in rail is occurring in both the public (transit) and private (freight) sectors. While high speed rail has been the focus of attention, Hatch Mott MacDonald has seen greater growth in light rail and transit.

"While Hatch Mott MacDonald's approach to business planning and development is necessarily multi-faceted, we plan to prioritize our resources in these areas. To be sure, we'll need our share of luck to continue our decade-long record of year-on-year growth, but as baseball's Branch Rickey was known to say, 'Luck is the residue of design,'" DeNichilo says.

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