

Pursuing Operational Excellence

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About the Study



- Covers financial statistics (P&L, Balance Sheet) and market outlook
- 35th year of performing the study
- Conducted in January-April 2014
- Based on 2013 financials
- Over 350 Canadian and US firms participated
- In collaboration with ACEC Canada, ACEC, and SMPS

Key Performance Indicators for the A&E Industry

What We're Seeing...

- Business climate continues to improve slowly but steadily
- Best firms continue to outperform, but the pack is gradually catching up
- Rising tide lifts all boats, but to sustain performance you need to do more

Operating Profit 2013

11.1%

- Everything is coming together for a positive environment for most firms
- Trend is steadily up since 2009: “Rising tide lifts all boats”
- Some firms can achieve 40%+ margins

Net Labour Multiplier 2013

2.99

- It's been in the same 2.9 range the last three years, but seems to be creeping up in 2013
- Still competitive, hard to increase fees, but starting to change
- High value, skilled labour is in high demand

Utilization Rate 2013

59.4%

- Utilization recovered in 2011. Like multipliers, somewhat flat since then, still room to improve
- Post recession: Less predictability in "traditional" clients and markets are more volatile
- Excluding Vacation, Holiday, Sick time it was 65.6%

Overhead Rate 2013

161.1%

- Overhead continues to drop year by year
- Firms have cut aggressively since 2009
- Additional gains can be made from increased utilization
- But under-investment during the recession may now necessitate some catch-up spending
- The Overhead Rate Including Bonuses was 180.3%

Total Payroll Multiplier 2013

1.74

- After rebounding in 2011, it's been flat for 3 years
- More than any other single KPI, this shows you how a professional service is doing, because it removes the gaming of billable vs. non-billable labour

Net Revenues Per Employee 2013

\$127,098

- It continues to rise from recession lows, but still hasn't returned to 2008 levels, even before factoring in inflation

High Performing A&E Firms— Key Differentiators

High Performing Firms– Criteria

**Profit 15% +
Multiplier 3.0+**

High Performers– More Differentiators

| | High Performers | All Other Firms |
|--------------------------|-----------------|-----------------|
| Staff Growth (one year) | 8.3% | 2.7% |
| Bonuses per Employee | \$12,699 | \$3,105 |
| Current Ratio | 3.11 | 2.53 |
| Pre-Tax Return on Equity | 37.1% | 13.5% |

High Performers vs. Other Firms—Closing the Gap?

Operating Profit on Net Revenue

| | High Performers | All Other Firms |
|------|-----------------|-----------------|
| 2012 | 25.0% | 8.4% |
| 2013 | 22.1% | 8.7% |

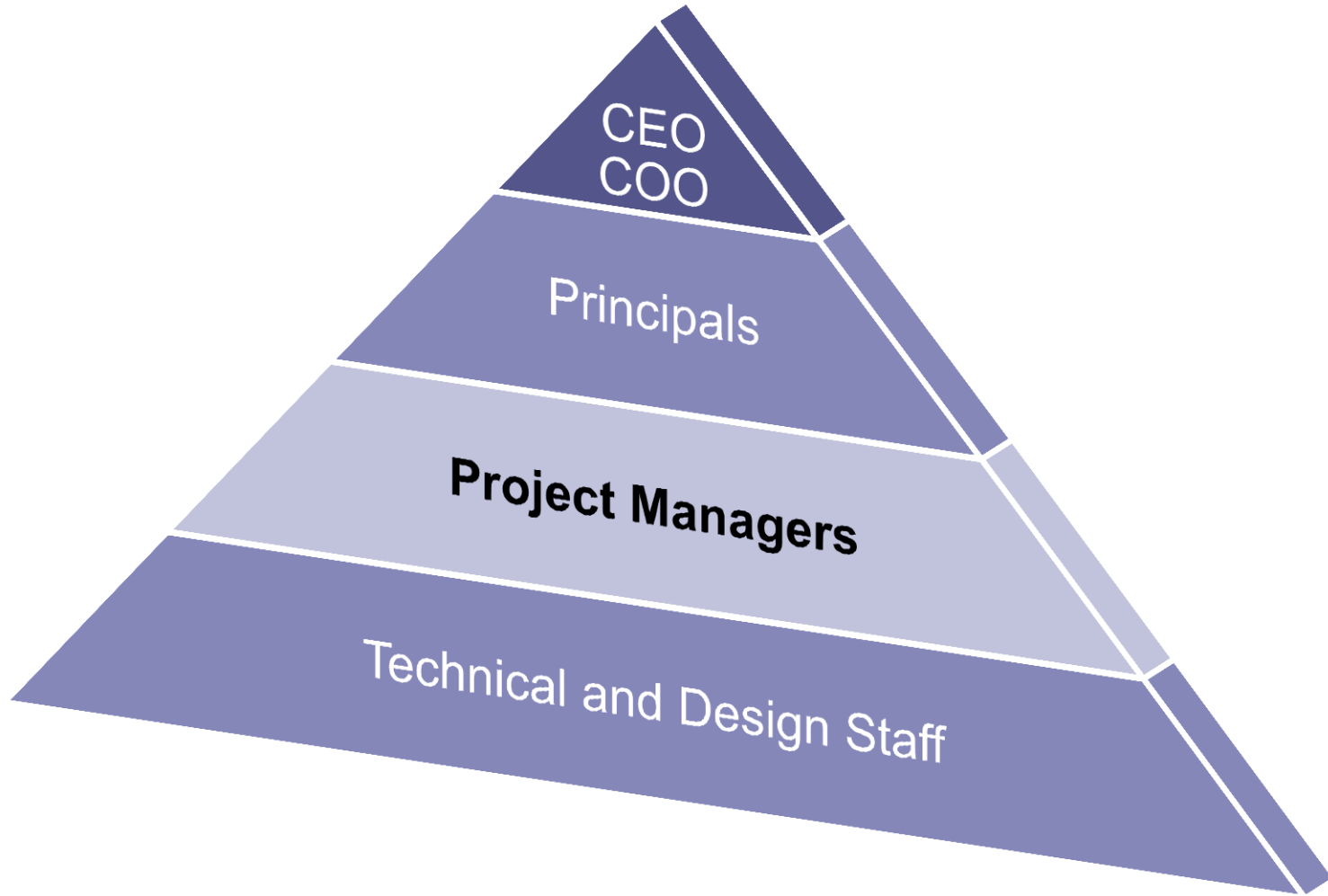
2014 Operating Profit Rate Forecast (% change)

| | High Performers | All Other Firms |
|------|-----------------|-----------------|
| 2013 | - 9.2% | + 7.3% |

Inside High Performing A&E Firms: Project Management Excellence

Why?

Your Firm's Future Depends On It



Why? It Has Direct Impacts

- Claims
- Client Retention
- Employee Retention



How? Build Strong and Effective PMs



What Makes a Great PM?

1. Follows through
 - On commitments
 - On others' commitments
2. Good listener
3. Proactive
4. Nails every aspect of job
5. Leads by example
6. Good communicator
7. Backs decisions of team members
8. Organized
9. Handles multiple priorities well
10. Technically proficient
11. Holds people accountable
12. Delegates well

Best Practices

- A vision created by senior management
- Clear company-wide standards
- Efficient processes
- Functional professional development
- Formal project management training
- Mentoring to enhance skills (team management, public speaking, etc.)
- Consistent accountability



Every PM Needs A Development Plan

| <i>PM Duties/Authority</i> | <i>Current</i> | <i>Vision</i> |
|--|----------------|---------------|
| Manage proposals for the projects he/she will ultimately manage | No | Yes |
| Prepare the fee budgets for their projects | Occasionally | Yes |
| Actively participate in fee negotiations with clients | No | Yes |
| Actively participate in selecting their project team members | No | Yes |
| Actively participate in performance evaluations of team members | No | Yes |
| Able to get non-performers removed from their projects | No | Yes |
| Control design and technical decisions (within the overall constraints of firm policies) | Yes | Yes |
| Stay in firm control of their project budgets | Usually | Yes |
| Stay in firm control of their project schedules | Yes | Yes |
| Maintain the day-to-day relations with their clients | Yes | Yes |
| Sign and seal the drawings (in states where they are licensed) | No | Yes |
| If there is a collections problem, directs the collection efforts | Participates | Yes |
| Really feel accountable for the success or failure of his/her projects | Yes | Yes |

How? Create an Environment That Enables PMs to be Successful



Best Practices

- Templates and tools to comply with standards
- Efficient, well documented processes
- Workflows from PM system to provide real-time project insight
- Insight into project financial performance
- Support from senior project manager or principal



How? Instill Accountability Across The Organization



Best Practices

- **Senior management**
 - Management sets the standard!
 - Rigorous project reviews at least monthly

- **PMs**
 - Document compliance with required actions
 - Project plans current and scope changes addressed with management
 - Standard escalation steps followed if project falls behind with budget or schedule
 - Monitor KPIs monthly and take action when project performance is below benchmarks

- **Finance**
 - Partner with the PMs – information sharing, training



10 Things Principals Must Know About Their PMs' Projects

1. Is the job set up properly in the accounting system?
2. Has a Project Management Plan been prepared and distributed to the team?
3. Are there pending change orders that need to be formalized?
4. Has the job been billed recently?
5. Are payments current?
6. Is the job running over or under budget? If over budget, what corrective actions are being taken?
7. Is the project on schedule? If not, what corrective actions are being taken?
8. Are our QA requirements being followed?
9. Is the client happy?
10. Is there more work coming up with that client?

Key Takeaways

Key Takeaways

- Benchmark your firm's performance
- Deliver project management excellence

Thank You!

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