

LIABILITY

Handling risk at A/E firms

Firms have hesitated to take on more debt during the recession, but that hasn't stopped some from finding new markets and innovating.

By CHRISTINA ZWEIG
Contributing editor

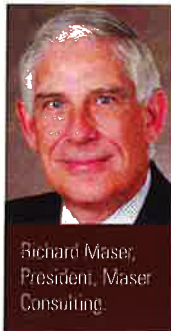
In the design industry, firms handle the risks inherent to the profession their own way – risks brought on by the economic climate, and those specific to their particular size, structure, and market. **THE ZWEIG LETTER** spoke with a broad spectrum of firm leaders to get their input on what risks have been most pertinent to their business and how these were managed.

Al Pond, CEO, **Pond & Company** (Norcross, GA), a full-service architecture and engineering consulting firm says, "Its human nature to be more cautious after you've experienced down times."

Pond, whose firm was No. 14 on **THE ZWEIG LETTER** 2013 Hot Firm List, credits his firm's success to a combination of factors involving careful positioning, sound financial policies, and good marketing.

"We have consistently grown our firm through this recession, so financial issues haven't affected our firm to the extent it has others. Some firms have struggled and been severely impacted due to the specific markets they are in," Pond says.

RISK AVERSE. Richard Maser, president, **Maser Consulting** (Red Bank, NJ), a multidiscipline firm with over 400 people, also feels that firms in the industry, including his own, are more risk averse post-recession. The effects have touched many areas of business and ultimately led to sounder policies.



Richard Maser,
President, Maser
Consulting

"For Maser Consulting, this has been more evident in the type of contracts and contract language that we entertain, as opposed to assuming additional debt. We are more conscious than ever of liability issues, especially under public contracts. We have also become more selective with clients who have a history of poor payment terms," he says.

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Maser Consulting continued to grow during the recession and was No. 40 on last year's Hot Firm List. When it comes to making new investments, Maser says, "We do not hesitate to invest in new technology or improvements in productivity, even if it does require taking on additional debt. Re-investing in the firm is crucial in order to grow and thrive in today's economy and therefore calculated risks must be taken," Maser says.

Sean Dundon, principal, **Blackstone Consulting LLC** (Portland, ME) a 30-plus-person environmental consulting firm, says his firm has handled risk in a positive way, bringing about new options and beneficial internal HR practices. "It has created the opportunity for a more thoughtful hiring process and in-house training program. By that

I mean we are now looking for technical staff who can perform more than one of the services we provide and do them well, or have the potential, based upon their background and initiative, to be trained in a related service area. By doing this, we feel we minimize the risk of overstaffing and having idle professionals in-house."

NEW PROSPECTS AND INNOVATION. Firms need to be ready to pounce on new prospects. Dudon says, "This is a time to keep a strong relationship with your lender so you may make an opportunistic series of hires or an acquisition. We have intentionally kept a health line of credit open, but do not utilize it for operations. It is simply there so that we may quickly take advantage of opportunities to expand our services as they arise."

Blackstone Consulting is poised for success in the upcoming year. "Our plan is to stick to our model and operate the business on a cash-basis, keep accounts receivable current, and use our borrowing capacity only to pursue growth opportunities. In short, the goal is to have no debt that funds the day-to-day business operations directly and we have been successful in achieving that objective," Dudon says.

Dale Conger, president of the 243-person multidiscipline firm **CobbFendley** (Houston, TX) says, "The recession has not made firms more risk averse. The engineering industry, by its nature, is risk averse."

The recession pushed CobbFendley toward innovation. "The recession made it essential that CobbFendley find new clients and new markets. The company emphasized marketing plans and implementation, strengthened its marketing staff and improved its branding," Conger says.

See RISK, page 4

●●●● GOOD TO KNOW

As a percentage of gross revenue, firms' professional liability insurance coverage is a median of 25.9 percent per year and 19.9 percent per claim.

Source: 2013 Financial Performance Survey, ZweigWhite, www.zweigwhite.com/p-2155-financial-performance-survey-2013.

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When asked about debt, Conger said, “Debt kills companies without repetitive clients, good cash flow and unwavering financial strategy and leadership. We watched a medium sized local firm in Houston bury itself in debt to ex partners and a poorly planned firm acquisition. It filed for bankruptcy.”

Like some other successful firms, CobbFendley borrows money to manage long-term capital purchases such as software, hardware, telephone systems and cash producing field equipment. Conger offers some advice on the subject. “Without some debt, cash flow could prove difficult, or said dif-



Brian Eggers,
Co-founder and
Principal,
AKT Peerless
Environmental &
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ferently, don't outspend expected cash flow. Secure a line of credit with your bank when times are good. Few financial institutions will loan a firm money when times get tough or your business is struggling.”

SOME UNCERTAINTY. Brian Eggers, co-founder and principal, **AKT Peerless Environmental & Energy Services** (Saginaw, MI), says that a lack of certainty from a federal perspective has held up growth and investment.

“As a result, we have been very reluctant to take on debt since the recession; it does hinder the growth of our economy as well as employment opportunities. Not only within our industry but the clients we serve, many have been in a holding pattern when it comes to investing in the future. When the time does come that we as a nation develop a rational energy policy, and begin to clear the way with other long term policy decisions that can give our industrial and manufacturing business some confidence, I believe there is an incredible pent-up desire for new growth and innovation. Until our political challenges are dealt with I am afraid that we will continue to sit in a holding pattern.”