

ACEC Engineering Business Index

EBI Composite Score

68.9

Summer 2014

Analysis and data collection by
FMI Corporation

Member Firm Leaders Remain Upbeat About Business Climate; See Commoditization as Threat, Resiliency as Gaining Traction

The ACEC Engineering Business Index (EBI), which charts the health of the engineering industry through member responses on company performance and market trends, remains solidly positive. The second quarter survey, which was released on July 15, had a composite score of 68.9—a slight increase from 67.4 in the first quarter.

EBI is a diffusion index, consolidating answers to a series of questions about market and firm performance into a single number. Any number over 50 indicates expansion.

More than two in three engineering firm leaders (68 percent) say the current business climate is better than last year at this time; and three in five (60.5 percent) say their backlogs are larger now compared to last year. Only 6.8 percent say the business climate is worse than six months ago, and just 3.4 percent believe that their business climate will worsen in the coming year.

Component Results Q2 2014	Better	Same	Worse	Index Component Score
Current business climate v. 12 months ago	68.0%	22.4%	9.5%	79.3
Current business climate v. 6 months ago	49.0%	42.9%	6.8%	68.1
Current business climate v. 12 months from now	58.6%	37.9%	3.4%	75.5
Profitability expectations for next 6 months	49.7%	42.9%	7.5%	71.1
Profitability expectations for next 12 months	51.0%	45.6%	3.4%	73.8
Profitability expectations for 3 years from now	56.8%	37.0%	6.2%	75.3
	Larger	Same	Smaller	
Backlog compared with 12 months ago	60.5%	21.1%	18.4%	71.1
Backlog compared with 6 months ago	52.7%	32.2%	15.1%	68.8
Backlog expectations for 12 months from now	46.3%	46.3%	7.5%	69.4
OVERALL EBI				68.9

Looking ahead 12 months, what are your expectations for projects in the PUBLIC markets you serve?	Better	No Change	Worse	Index Score
Transportation	41.5%	40.8%	17.7%	61.9
Water and Wastewater	40.9%	49.1%	10.0%	65.5
Environmental (Other than water/wastewater)	25.0%	67.4%	7.6%	58.7
Education	23.4%	66.7%	9.9%	56.8
Health Care	21.4%	67.0%	11.7%	54.9
Other	31.4%	64.0%	4.7%	63.4
Looking ahead 12 months, what are your expectations for projects in the PRIVATE markets you serve?	Better	No Change	Worse	
Buildings--Commercial	53.3%	44.3%	2.5%	75.4
Energy and Power	42.1%	55.8%	2.1%	70.0
Industrial/Manufacturing	56.0%	43.0%	1.0%	77.5
Education	24.8%	69.3%	5.9%	59.4
Health Care	27.1%	63.5%	9.4%	58.9
Land Development/Surveying	54.0%	43.4%	2.7%	75.7

Private Market Optimism

Engineering firm leaders are also increasingly more optimistic about private sector markets. At least half of the respondents believe that opportunities in Buildings-Commercial (53.3 percent), Land Development and Surveying (54 percent), and Industrial/Manufacturing (50 percent) will improve over the coming year.

Surprisingly, second quarter results show a significant decline in expectations for the Energy and Power market sector, with only 42.1 percent of respondents expecting the market to expand in the next 12 months. In the first-quarter survey, 56.3 percent of respondents were optimistic the market would grow in the coming year.

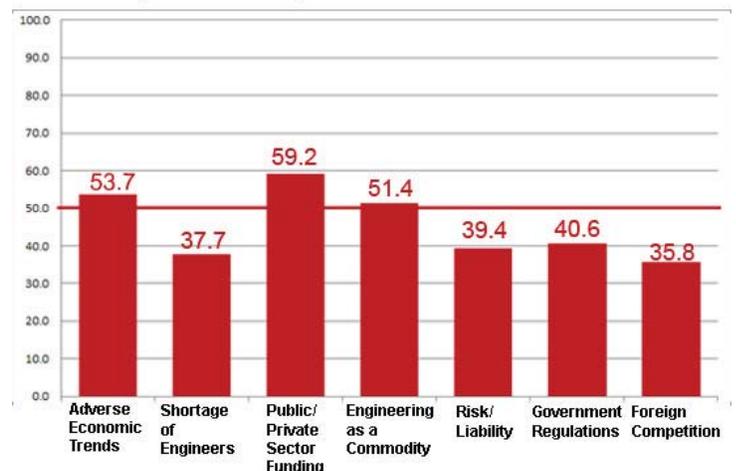
Public sector market expectations are low. Only 41.5 percent of respondents anticipate growth in the Transportation sector in the next year, and only 40.9 percent believe the Water and Wastewater sector will grow.

Commoditization Fears

Firm leaders cited client perceptions that engineering design is just a commodity as a significant drag on their growth and profitability in today's market. More than half of respondents (51.4 percent) cited commoditization as one of the three gravest threats to their firm's success, behind only lack of public/private sector funding (59.2 percent) and a slow economy (53.7 percent).

"Many large public and private entities are consolidating procurement of engineering services under procurement specialists that tend to commoditize rather than recognize the value of specialty engineering services," said one respondent.

Q Rate the following business factors in relation to how much they THREATEN your firm's success.



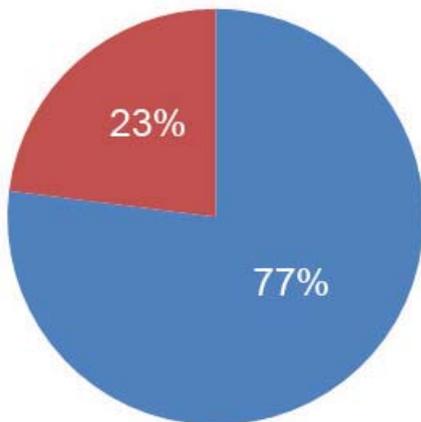
Among the factors contributing to their firm's success, respondents listed Positive Economic Trends (87 percent), Qualifications-Based Selection (78.6 percent) and Increased Public/Private Sector Funding (76 percent). These three factors also topped the list in the first quarter survey.

Resiliency Awareness

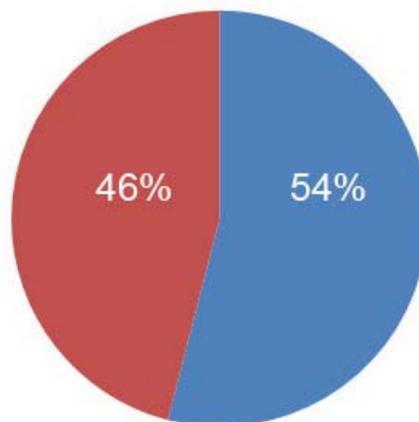
Respondents report steady growth in the number of clients requesting that they incorporate climate-change resiliency into designs. Whereas three years ago, 77 percent of firms said that none of their clients asked for resilient designs, 70 percent of respondents expect that within three years, some or all of their clients will request that climate change resiliency be designed into their projects.

"This market has exploded, in relative terms," reported one respondent. "We went from doing very little, to considering this in a large number of our projects. Not everybody understands or appreciates it, but it is a growing issue."

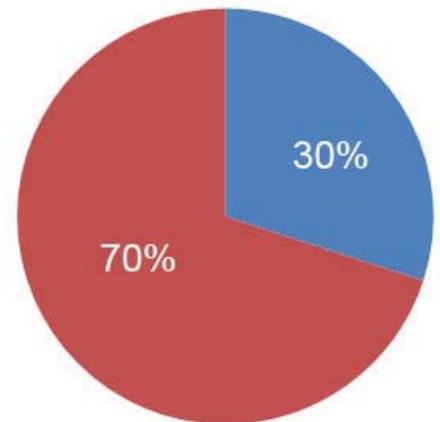
Q: What Percentage of Your Clients Explicitly Request that Your Firm Incorporate Climate-Change Resiliency into Designs?



Three years ago, more than 3/4 of firms reported that none of their clients explicitly requested incorporating resiliency in their designs.



Today, just over half say resiliency is not an issue with their clients.



Within three years, 70 percent of firms expect some or all of their clients to ask for resilient designs.

Design-Bid-Build Dominance

The survey found that Design-Bid-Build is overwhelmingly the most common delivery method, accounting for nearly two-thirds (66 percent) of all projects. Design-Build is a distant second (14 percent), followed by Construction Management-at-Risk and Integrated Project Delivery (both at 4 percent).

Looking three years ahead, respondents expect the Design-Bid-Build share to decrease to 57 percent, and the Design-Build share to increase to 19 percent.

Demographic Round-Up

Fifty-two percent of the survey responses came from engineering firms with one to 50 employees, 24 percent from firms with 51-200 employees, 14 percent from firms with 201-500 employees, and 10 percent from firms with more than 500 employees. Twenty-nine percent of responses were from the South, 27 percent from the West, and 19 percent from the Midwest.

EBI Survey Respondent Comments

On Business Factors that Threaten Firm Success:

“Everyone is worried about an engineering shortage, but that just shows how we are stuck in the past as an industry. We should be prepared to do things differently in the future, including using a wider variety of workers and extended enterprise. I am far more worried about lack of funding in our markets, competition from government, and increased and suffocating government programs and regulations.”

“Far too many federal agency hollow contracts for which a tremendous amount of time was spent in the procurement process.”

“The move to alternate project delivery systems such as Public-Private Partnerships and Design-Build for transportation projects threatens the Qualifications-Based Selection Model that our firm is significantly reliant. It also threatens further commoditization of the engineering profession as Price enters the decision making process in a way QBS insulated against.”

Comments on Business Factors that Enhance Firm Success:

“The Public-Private Partnership model will have a deleterious effect on my firm’s opportunity for success unless offset sufficiently by increased funding to QBS delivery systems.”

“I appreciate sustainable designs and the desire for Public-Private Partnerships, but the real money is in day-to-day infrastructure funding, and that is at crisis levels.”

“We need small business subcontracting requirements for DOD in global marketplace/foreign military sales.”
“Sustainable design is key! Our business thrives when clients want high-quality, low-energy use solutions.”

Comments on Use of Project Delivery Methods:

“I do not see CMAR or Design-Build as taking over the marketplace; it will have a place, but in my opinion will not become the predominant delivery method.”

“I see P3 becoming a part of our project delivery portfolio in the next year.”

Comments on Climate Change Resilience in Project Design:

“I expect sea level rise will drive the bulk of this in our markets.”

“If another super storm such as Sandy or Hurricane Katrina hit the New England area in the next three years, the percentage will be much higher.”

“I’ve not had any client call it Climate Change Resilience. What we have seen is client’s acceptance of risk significantly wanting and expecting no problems with the design for over 20 years, and in infrastructure, no problems for the next 75 years or more. Expectations are high.”