Deltek

Clarity: Architecture & Engineering Industry Study

45th Annual Comprehensive Report

In collaboration with:

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INTRO

Architecture and Engineering firms remain positive as inflationary pressures eased and labor rolls stabilized in 2023 with firms forecasting a 10.9% increase in net revenue growth next year.

Key financial metrics in 2023 held steady, reflecting a welcome equilibrium following general economic volatility, inflationary pressures and talent shortages observed in recent years. But challenges remain: while high talent turnover has waned, shortages persist and many firms continue to make do with less, requiring the best-performing A&E firms to seek operational efficiencies and cross-train talent.

Despite a positive outlook, growth will continue to be a challenge for firms that are ill-equipped to attack new opportunities. Rising labor costs in 2023 applied pressure to firms' net labor multipliers and overhead rates, while the best performers were able to effectively navigate this challenge with higher utilization rates compared to 2022. Firms also appeared to expand on the trend of shifting capital investments in fixed assets to more on-demand, operational expenses in the form of technology and software solutions, which seem to have positive cash flow effects.

The volume of proposal submissions and contracts awarded grew in 2023, yet the overall value of those contracts declined compared to last year. Work on existing buildings continued to be a strong opportunity area for work, notably in reconstruction, renovation and interiors versus new builds. With merger & acquisition (M&A) activity on the rise, voluntary reductions in force (RIFs) increased in 2023, indicating a shift in firms' workforce management strategies to better optimize employee capacity and planning. This may also be a direct result of M&A activity with some overlapping positions being eliminated.

Firms also demonstrated an aggressive stance in pursuing operational efficiencies and improved cost effectiveness this year, as they continue training PMs and other employees to handle key operational tasks to drive utilization of their workforces to the fullest extent. While enhanced training of project leaders and project managers continues to be an important focus, there was a notable shift among firms away from in-house training towards the utilization of third parties to address those needs.

Use of AI-powered tools is increasing, albeit slowly, across firms of different sizes. However, there is an urgent need for targeted education, robust support and practical tools to facilitate understanding artificial intelligence and its application.

10.9% Net revenue growth forecast, up 0.7 points year over year

18.7% Operating profit on net revenue growth

62% of firms expect AI to improve operational efficiency

ABOUT THE STUDY

For the last 45 years, Deltek has conducted an annual survey of firms in the Architecture & Engineering industry to identify benchmarks on key performance indicators, gain perspective on current market conditions and better understand industry trends.

Methodology

The online survey was developed in partnership with CMG Consulting and conducted between January and March 2024, with financial metrics reflecting the 2023 fiscal year. The 45th Annual Deltek Clarity Architecture & Engineering Study includes data from a variety of firms of all sizes and regions across the United States and Canada.

Firm Type

The umbrella term of Architecture and Engineering (A&E) refers to all architecture, engineering and allied firms included in the Study. Three broad categories are broken out for a more in-depth analysis:

- Architecture (A) or Architecture/Engineering (A/E) firms are either pure architectural design firms or architecture-dominant firms that also provide engineering services. A/E firms are also known in the industry as "big A, little E" firms. In this report, 35% of participants were in the A or A/E category.
- Engineering (E) or Engineering/Architecture (E/A) firms are either pure consulting engineering firms or engineering-dominant firms that also provide architectural services. E/A firms are also known in the industry as "big E, little A" firms. In this report, 55% of participants were in the E or E/A category.
- "Other" refers to the companies in the industry that do not fit into either category based on the traditional definition but are critical to the delivery of projects. Such firms might include environmental science, fire protection, surveying or others operating within the industry. This year, 10% of the Study's respondents were placed into this category.

Firm Size and Region

The size of participating firms was diverse when measured by the number of employees. Deltek defines small, medium and large firms in the following way:

- Small: 0-50 employees (43% of participants)
- Medium: 51-250 employees (40% of participants)
- Large: 251+ employees (17% of participants)

Participating firms have headquarters in the United States or Canada.

The geographical distribution of firms follows:

- **United States 90%**
    - West 29%
    - Midwest 26%
    - South 16%
    - Northeast 15%
    - Washington D.C., Maryland, Virginia 5%
- **Canada 10%**

High Performers

Each year, Deltek breaks out a group of high performers for additional analysis. High-performing firms are defined as those achieving a net labor multiplier of 3.0 or higher and an operating profit on net revenue of 15% or higher. This year, high performers represented 20% of all Study participants.

A total of 652 firms took part in this year's Study, representing a broad cross-section of businesses within the A&E industry in North America.

EXECUTIVE SUMMARY

Firms effectively balanced rising costs with revenue growth, which drove higher utilization. Driving operational efficiencies will continue to be paramount as firms focus on developing project leaders and invest in strategic technology.

In 2023, firms outran economic uncertainties and rising costs to achieve healthy, although essentially flat, operating profit margins year over year. Reaching that steady state, relative to the volatility firms experienced in the past few years, enabled A&E leaders to turn inward and focus on driving operational efficiencies, talent utilization and exploring technology to provide an additional edge.

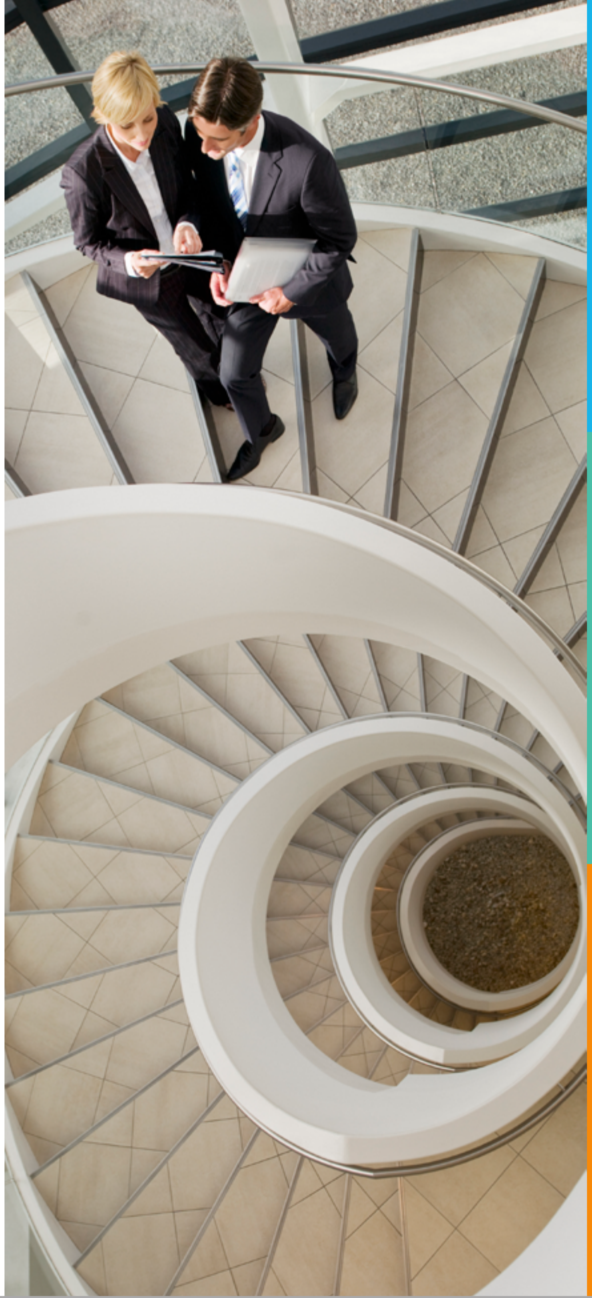
Workforce strategies pivoted to address staffing constraints and operational demands, marking a shift towards efficiency and adaptability.

Firms continue to walk away from opportunities, with the ACEC reporting that 88% indicate being more selective about the projects they accept[1].

Both project fit and profitability are increasingly becoming critical factors in deciding which projects to pursue.

Although firms aim to nurture their talent pool and develop future leaders through new training initiatives, the journey is not without its challenges. From fragmented efforts to budget costs and time constraints, firms are considering their tech investment priorities and will look to AI-powered tools to help them overcome these challenges and improve operational efficiencies.

[1]*ACEC Engineering Business Sentiment Report; Q1 2024. February 2024*



01

TECHNOLOGY TRENDS

Firms are shifting their attention to artificial intelligence to drive efficiency. Over time, AI will enable firms to overcome longstanding barriers and positively transform the A&E industry.

As technology evolves and more advanced and innovative solutions powered by AI enter the marketplace, the most agile and tech-fluent firms will adapt quickly to set themselves apart from competitors. Still, any firm can succeed by deliberately programming a transition to the next generation of technology by taking their first, or next, steps in 2024. Opportunity is abundant, and the next generation of professionals will bring fluency and energy to this transition.

62%

of A&E firms expect artificial intelligence to improve operational efficiency

"Investing in technology and people who can work with AI is crucial for firm growth. This investment is necessary to overcome short-term staffing challenges and ensure there are enough employees to meet growing client demand. By investing in AI and its workforce, organizations can achieve long-term success and overcome their labor shortage challenges."

— **DAPHNE BRYANT**, ACEC

ADDRESSING TOP TECHNOLOGY CHALLENGES

1 Prioritizing Applicable Trends

A&E executives have incrementally adopted technologies into their firms and realized positive gains. Now more than ever, A&E leaders report that they plan to make technology a primary strategic focus and grow a culture of innovation within their firms. A&E leaders must turn to their own staff for guidance, tap into outside expertise and consider client needs above all. The firms that leverage all three sources to identify decision-making criteria and use them to determine where to invest in technology will stand out from their competitors.

2 Cost of Technology

Once A&E firms establish strategic priorities for technology, perceived cost will transition to an investment with long-term payoffs. Until then, firms that allow costs to prevent them from advancing their business will fall behind. Firms must see past individual competing interests and expenses. Third-party experts can help firm leadership identify pragmatic plans for acquiring affordable technology and training staff on how to use it, resulting in greater operational efficiency.

3 Lack of Time to Invest in Learning

Lack of time to invest in learning suggests that firms don't take the time to invest in themselves. Companies that embrace learning in their culture are better innovators, are more agile and do a better job at hiring and retaining staff. They are either ahead of or astride the latest technology trends that clients expect their firms to utilize and, in many cases, integrate with. With an entirely new AI-powered tech generation to capitalize on, and a shortage of talent, firms must recognize that investing in learning is foundational to survival.

TECHNOLOGY TRENDS OVERVIEW

In the A&E landscape, 2023 marked an important year characterized by the anticipation of positive technology influence on operational dynamics. The benefits of technological advancements motivated firms to a place where adaptation became vital for sustained relevance and competitive edge. However, along with this technological evolution, firms found themselves facing persistent challenges, such as educating personnel to effectively use new technologies. Overcoming the challenges demands considerable dedication. Time away from billable work and looming deadlines is often limited by insufficient resources and leadership.

The accelerated pace of technology innovation enabled by the increasing volume of data and greater availability of AI tools introduces new opportunities. Yet the adoption of technology presented a collective challenge, impacting stakeholders across firms. Even the most basic forms of technology remained underutilized, a trend attributed to factors like time constraints or inadequate training. Cybersecurity remains a constant threat, potentially overshadowing the opportunities of innovative technology.

To navigate and emerge at the top of this complicated landscape, leaders must commit to strategies that prioritize technology in their firms. This implies fostering a culture of innovation and learning while investing in a broad base of talent to build career pathways toward next-generation leadership. Leaders of today should provide the direction and the tools to achieve goals, then let the experts work with their teams to determine which business applications to invest in.

By championing the potential of technology advancements and offering a culture of innovation and learning, firms can set a course toward sustained success in an ever-evolving technological landscape and create a more appealing work environment for current and future employees.

With strategic investment and prioritization, A&E firms can leverage technology more quickly to tackle project and operational challenges.

Top Technology Trend Challenges

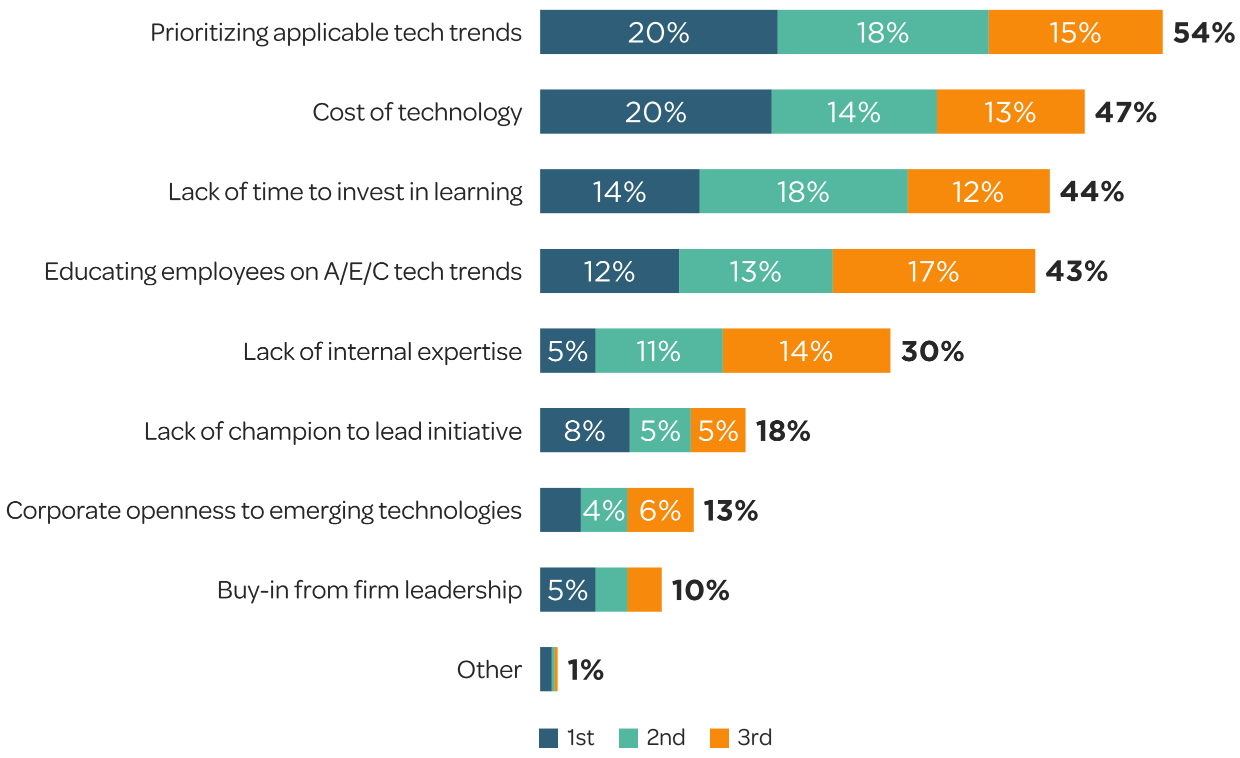
With the anticipated growth of AI-powered tools on the near-term horizon, firms will look for consultation on identifying the optimal set of solutions that give them control to overcome three longstanding top tech trend challenges: prioritizing which trends are most applicable, cost of technology and lack of time to invest in learning.

More than half of all firms named prioritizing which trends are most applicable as a top challenge, especially large firms. Firms across the digital maturity spectrum have the opportunity now to work with internal and external experts to develop strategies and plans for identifying the most applicable technologies that will heighten competitive posture.

The cost of technology remains a formidable challenge, with roughly half of firms naming it as one of their top three challenges. Small businesses are most likely to perceive the investment in technology as a barrier despite the fact that there are many budget-friendly technology options available. Smaller firms that fall behind on the digital maturity spectrum run the risk of losing next-generation talent to more mature competitors.

The lack of time to invest in learning is also one of the top challenges for about half of firms. Those that shift their strategies toward tech tool adoption, lean on experts for advice and leverage third-party training will surge ahead of competitors.

A&E firm leaders are shifting their stance on some tech challenges. Buy-in from firm leadership is on the rise and is no longer a #1 barrier to adoption. By leaning into trusted advisers to help develop a plan, A&E leaders can focus on client development, recruiting and training staff and developing the firm's culture.

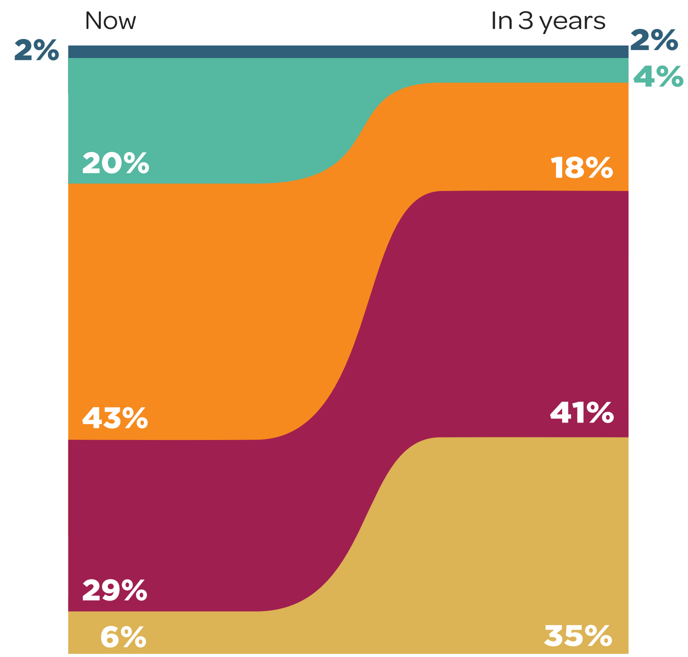


Digital Transformation Maturity Spectrum

In this self-assessment, 35% of firms classified themselves as “advanced” and “mature” on a digital transformation spectrum. An additional 43% identified their firms as in the “applied” stage, which is in the center of the spectrum.

Looking ahead, 76% of firms are more than twice as likely to envision themselves as “advanced” and “mature” in just a few years. Another 18% expect to reach the “applied” stage, leaving only six percentage points in the immature “exploratory” and “nascent” stages. Large firms expect to mature the most, from six percentage points “advanced” in 2023 to 48% “advanced” in three years, indicating significant investment in the very near term. Medium-sized and small firms expect notable maturation as well, expecting to grow to “advanced” by five and six percentage points respectively to 33%. As all firms mature, very few expect to fall behind as “exploratory” or “nascent.”

These maturity projections indicate that firms intend to continue to better align overall firm strategic goals with IT priorities to create a more innovative and collaborative culture with technology at the core. And, as a new generation of workers represents more of the workforce, firms have to get smarter and more efficient through digital transformation.



- **Nascent.** There's a disconnect between business and digital IT initiatives or a misalignment with company strategy.
- **Exploratory.** There’s a recognition of the need for digital transformation strategy but execution is at the lighthouse stage, on an ad-hoc project, which is neither predictable or scalable.
- **Applied.** There’s alignment between business and IT goals and momentum to adapt, but not dedicated focus on the full disruptive potential of digital initiatives.
- **Mature.** Business and IT management are integrated and delivering digitally enabled product / service experiences on a continuous basis.
- **Advanced.** Digital transformation is a primary strategic focus at the executive level and a culture of innovation is prevalent along with, increasing revenue, improving customer experience and growing operating margins.

The Role of Artificial Intelligence

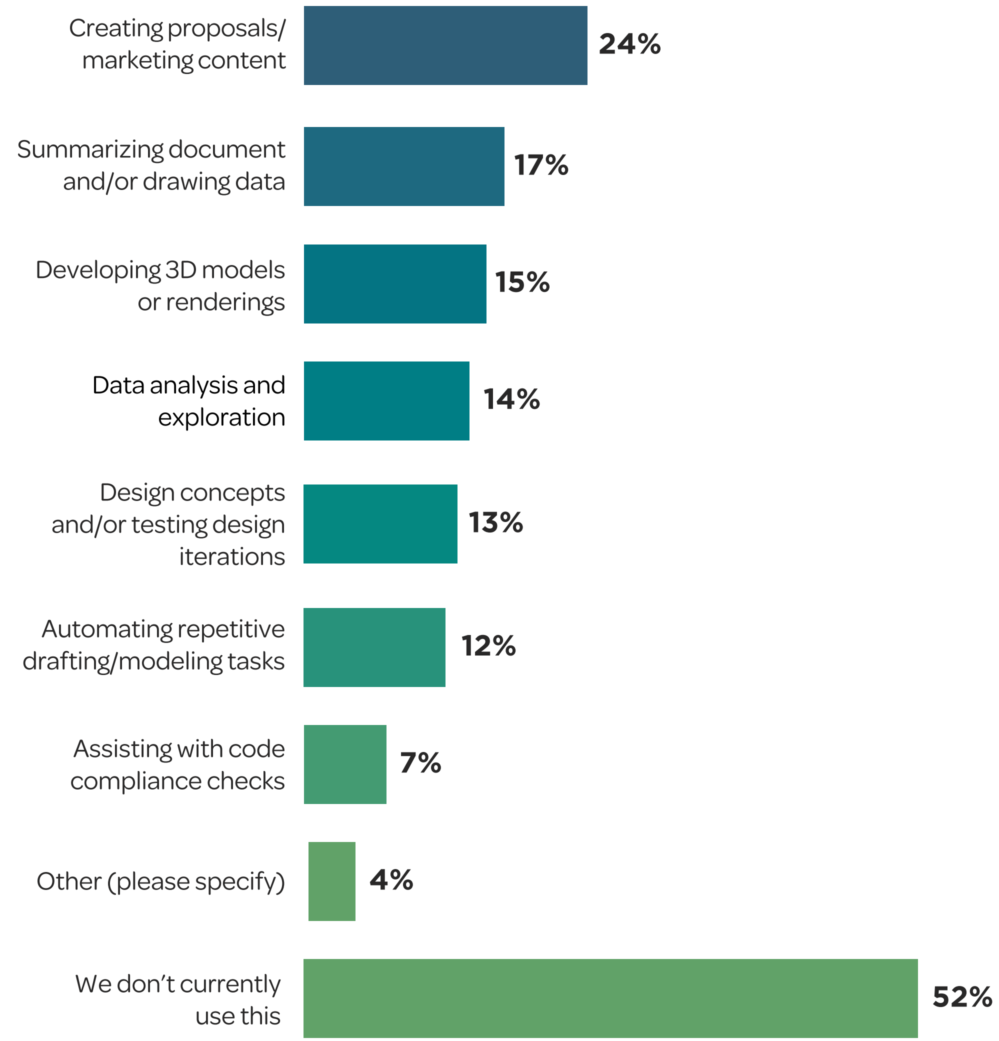
Artificial intelligence (AI) is already present in A&E technologies and the various software tools used by the industry to design, plan and build as well as conduct day-to-day business.

In 2023, firms tapped into generative AI for marketing and proposal creation (24%), data summarization (17%), 3D modeling and rendering (15%)) and data analysis (14%). Firms leaned on traditional AI for computer vision (16%), design analysis and calculations (13%) and business process automation (12%).

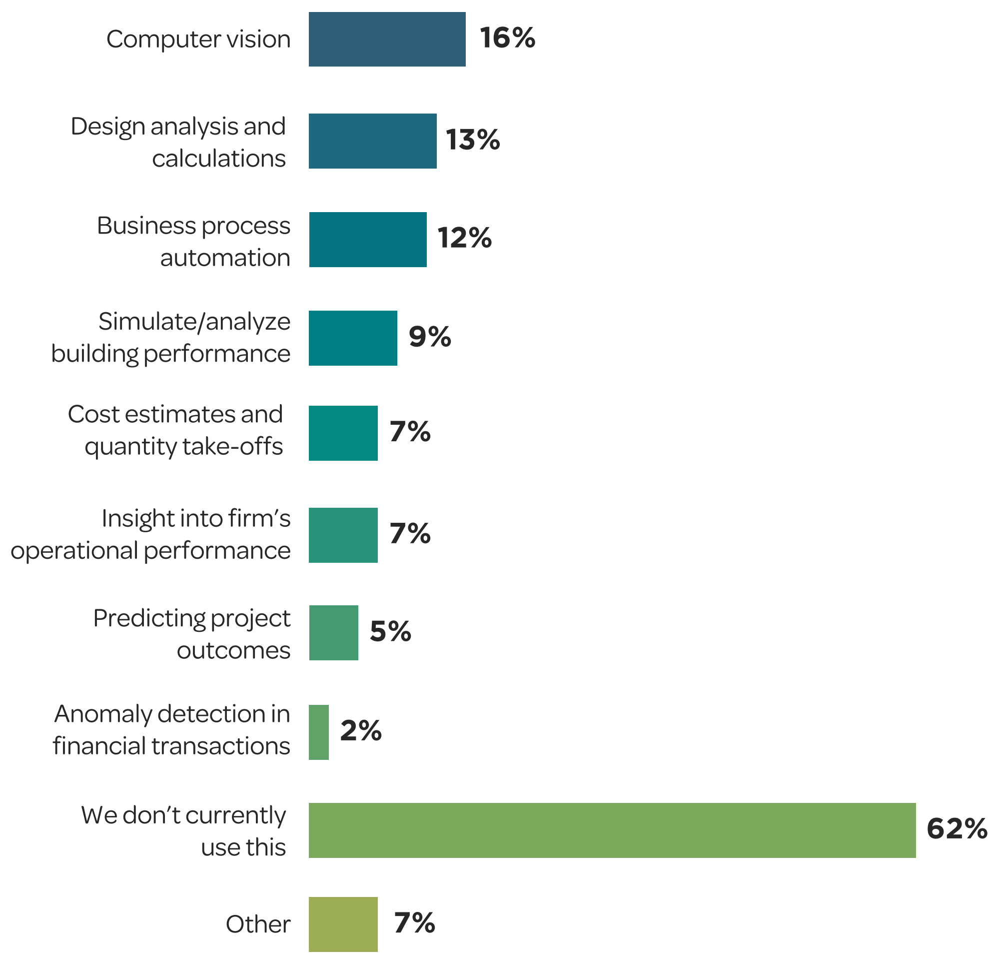
In anticipation of advancements in AI, firms largely expect AI to help most with improving operational efficiency (62%), improving project timeline/delivery (52%) and reducing overhead costs (35%). These priorities spotlight the urgent need to refine internal processes in order to yield cost savings and operational improvements.

The allure of implementing new AI technologies that promise streamlined workflows and reduced expenses is palpable. Still, the majority of firms have yet to fully embrace it. Executives who acquaint themselves with what AI is and what it can do for their firms and clients will establish themselves as industry leaders.

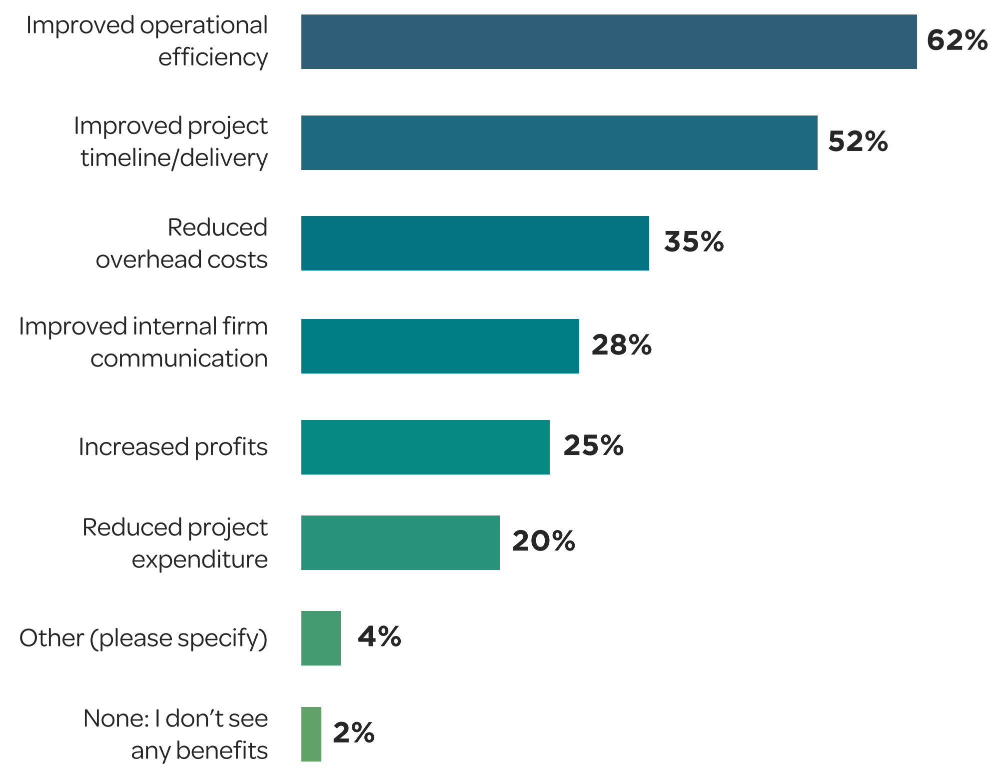
AI Tasks



Role of AI & Machine Learning



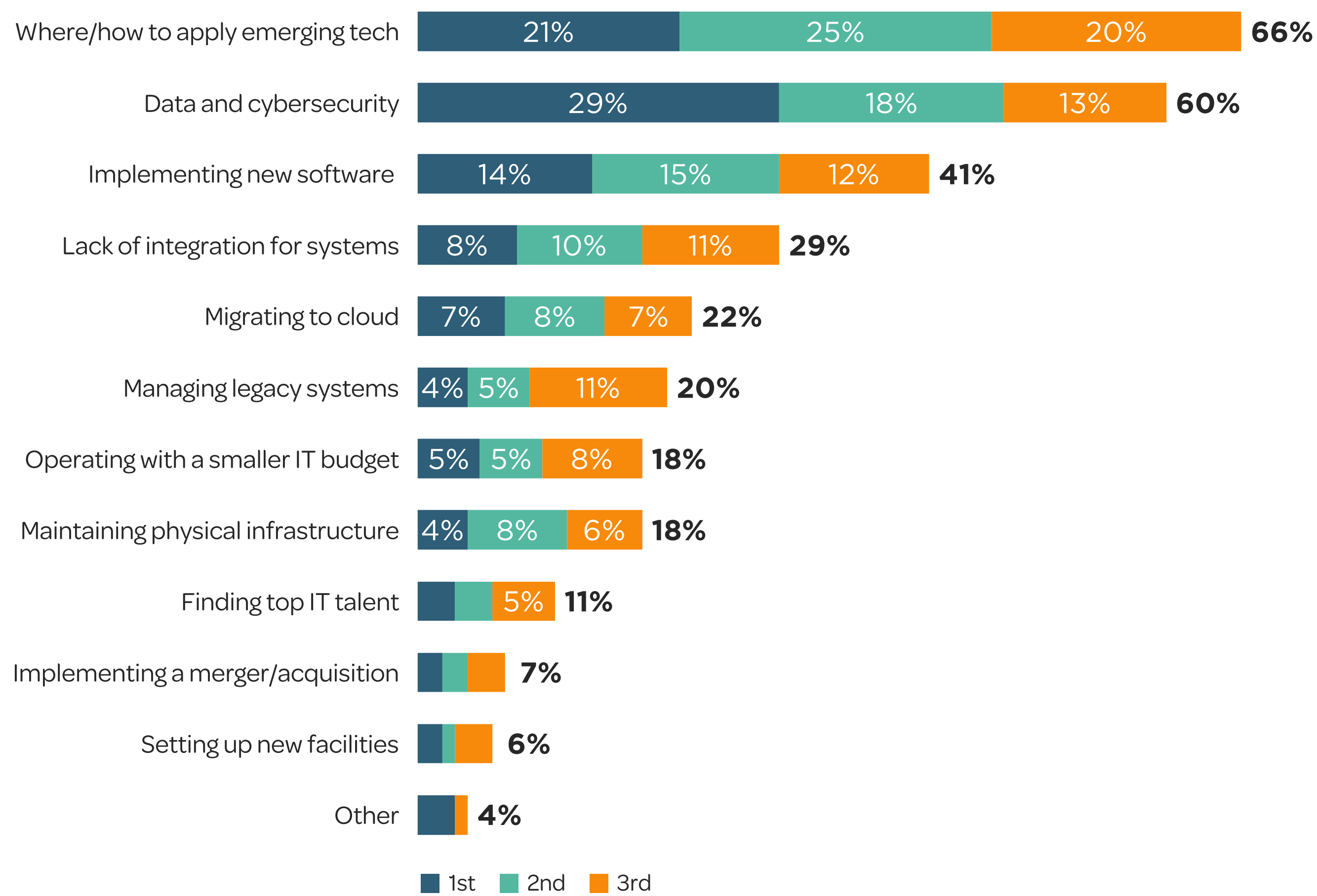
AI Benefits



IT Operations Challenges

As more firms benefit from migrating systems to the cloud, the path to get there requires strategy and planning. A well-designed tech stack, a pragmatic rollout and staff training are critical to successfully implement new technology. This approach can help firms develop a better approach to addressing the most prevalent IT operational challenges: determining where and how to apply emerging technology, data and cybersecurity and implementing new software systems.

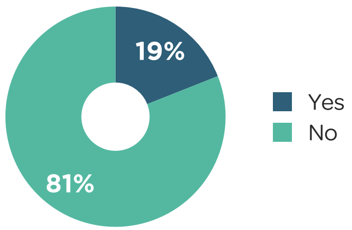
The tech landscape contines to expand, with broadening areas of opportunity to improve efficiency and generate new revenue streams. With this growth, 66% of A&E firms struggle with determining where and how to apply emerging technology. Concerns about data and cybersecurity have not abated for A&E firms, as more than 60% of respondents ranked it in their top three challenges for their IT operations two years in a row, with 29% identifying it as their number one challenge. One in five firms reported they have experienced a cyber threat or attack.



A significant 41% of surveyed businesses also identified their capacity to adopt new software systems as a top IT challenge. Some seek to implement fresh solutions to replace outdated legacy systems, while others aim to stay abreast of cutting-edge technology. Additionally, 29% of firms are facing challenges trying to integrate their systems.

The need for more cohesive and coordinated software strategies is evident to ensure firms are getting the most return on their investment and help staff learn the right tools.

Firms Impacted by Cybersecurity Threat/ Attack in Last 18 Months



Organizational Leverage of Cloud/ SaaS Solutions

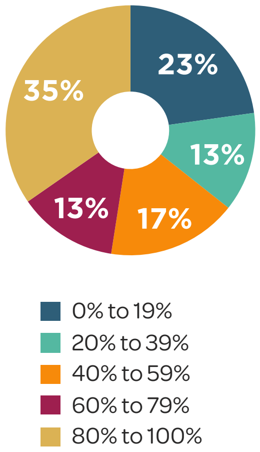
The momentum behind adoption of software-as-a-service, or SaaS, continues to be strong. Firms are leveraging cloud solutions across more of their firm's infrastructure, systems, workstations and storage.

Almost half of firms report they leverage cloud solutions for more than 60% of their firm's infrastructure, systems, workstations and storage. And, 35% of firms leverage cloud solutions for the majority (more than 80%) of their firm's infrastructure, systems, workstations and storage, a six percentage point jump in one year. Significantly, even firms with historically few cloud solutions (0 to 19% leverage) have started their digital transformation journeys, jumping from 18% to 23% in one year.

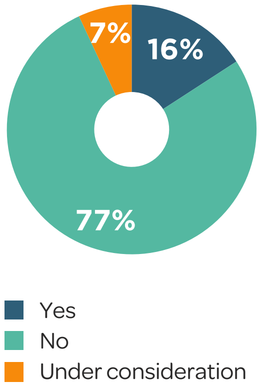
Almost one in four firms now offer technology services to clients as a revenue generator (16%) or have one under consideration (7%). These services include technology consulting, application development, smart buildings/smart infrastructure and digital twins, among other services.

The rising adoption of cloud solutions highlights the fact that A&E firms are realizing the value of using digital tools to improve organizational processes and providing services that create new revenue streams. They are identifying the need for experts to help manage their data and ensure they are secure and protected. It also frees them to focus on more strategic projects and move the business forward.

Organizational Leverage of Cloud/SaaS Solutions



Revenue Generating Tech Services Offered



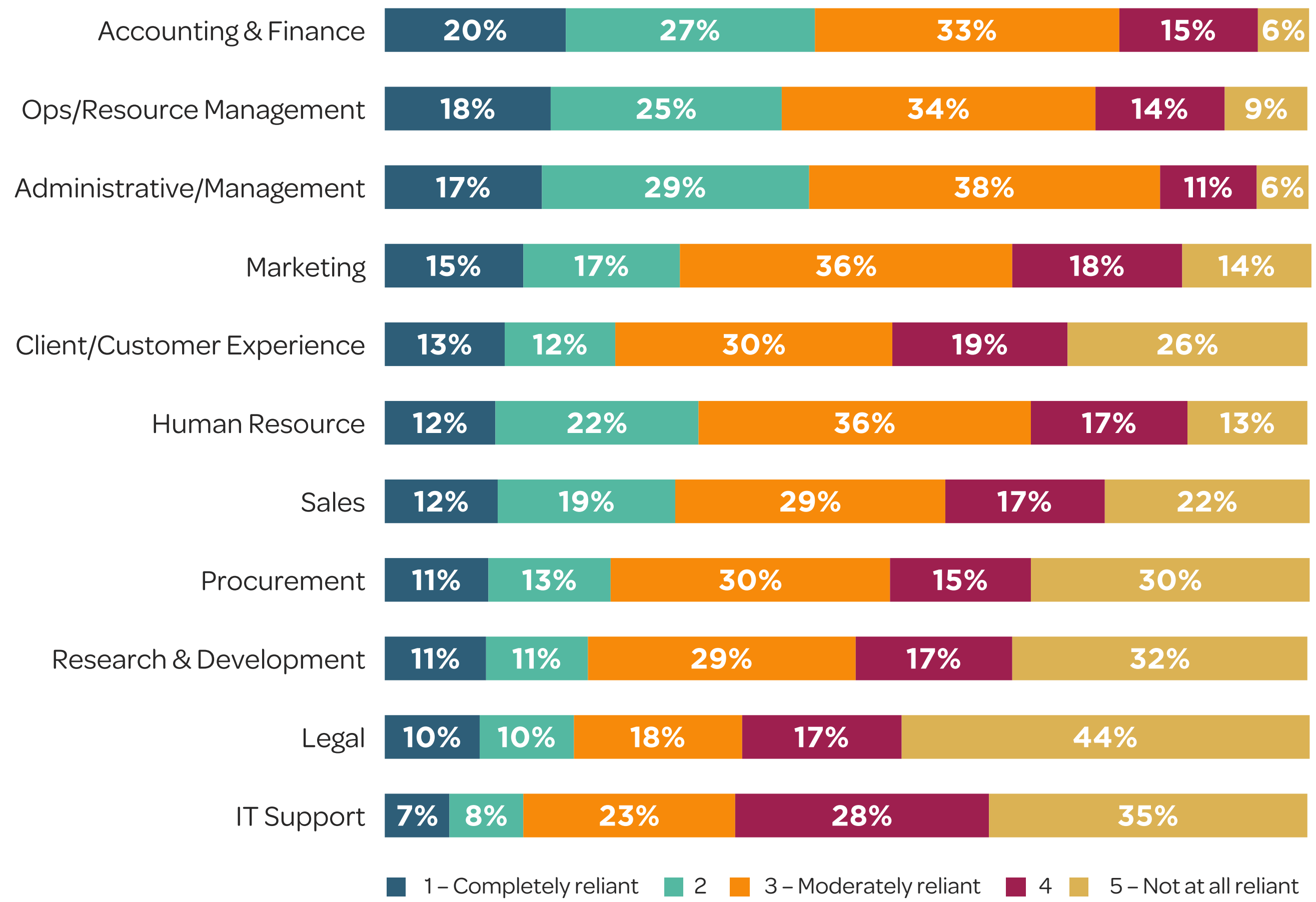
Reliance on Manual Data Entry

While many firms have made progress toward digital transformation or have high aspirations to improve their digital maturity in the coming years, many firms are still relying on manual data entry and spreadsheets to run their business.

Legal and IT support reported the largest shifts away from manual data entry, with 44% and 35% of firms respectively, not at all reliant on manual data entry and spreadsheets. R&D and procurement also trended toward automation, with 32% and 30% of firms not at all reliant on manual data entry, respectively.

In contrast, Operations/Resource Management, Administrative/Management and Accounting & Finance rely most on manual data entry. One in five firms reported complete reliance on manual data entry for Accounting & Finance. Given the automation and workflows available for financial leaders through their accounting solutions, firms should look for opportunities to maximize technology and move away from manual processes.

A&E firms are digitizing their business functions, but some areas may not be on board with digital transformation. Firm leaders can take a closer look at areas of concern to identify small changes that can achieve greater efficiency with the opportunity to reimagine job descriptions to be more impactful to the business.



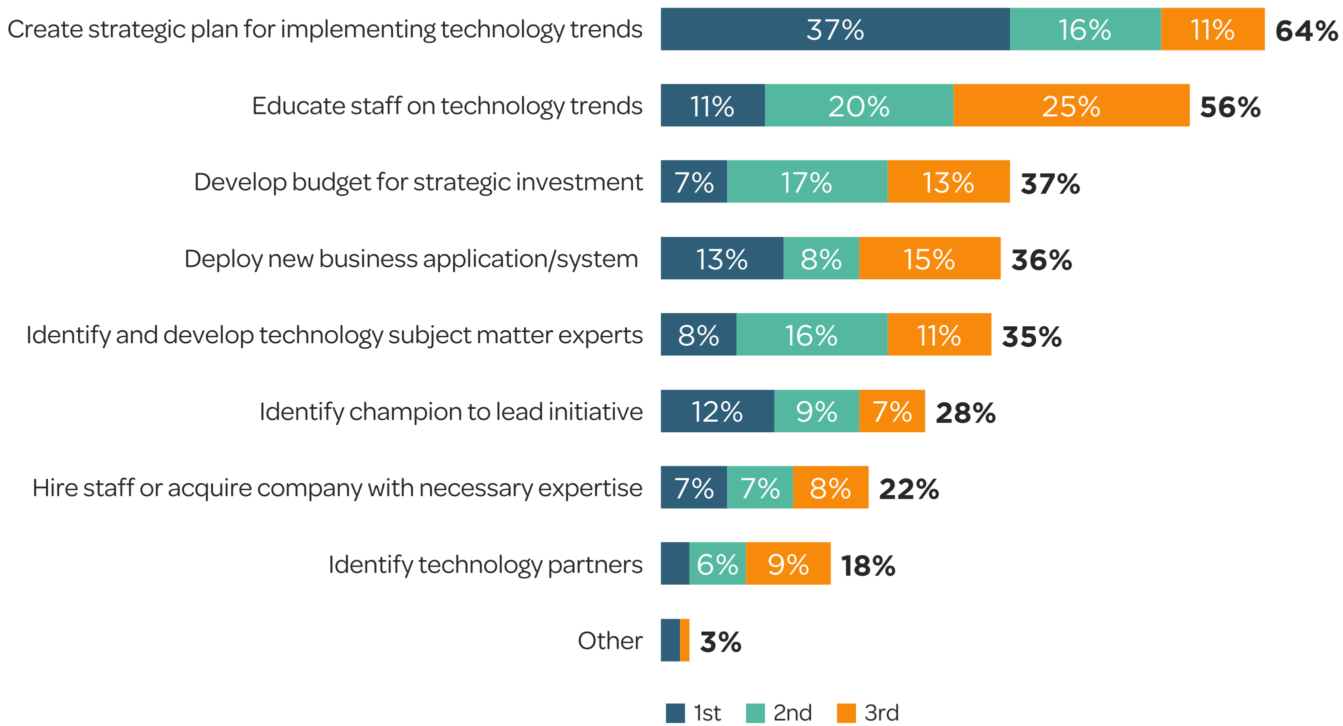
Top Technology Trend Initiatives

A&E firms continued to consider a broad spectrum of technology initiatives to advance their digital transformation efforts and technological immersion maturity.

In doing so, 64% prioritized the creation of strategic technology implementation plans and 56% indicated the need to educate staff on critical technology trends. The emphasis on strategic thinking and educating staff in these keystone priorities indicates that firm leadership continues to evaluate technology options against criteria that include long-term growth, cost containment and human capital management.

Second-tier priorities emphasized the development of budgets for strategic investment (37%), deploying new business applications/ systems (36%) and identifying and developing technology subject matter experts (35%).

A&E firm leaders are taking their digital transformations more seriously than ever and are considering strategies that likely require significant capital investment to yield long-term payoffs. Firms are actively acquiring and integrating technology more broadly across the organization as part of their business strategy, a notable advancement over the collective disposition in recent years.



Top Technology Trend Initiatives by Firm Size

In 2023, A&E firms of all sizes agreed that top tech trend priorities are strategic planning and educating staff to implement technology. Yet, the relative importance of second-tier priorities varied by firm size.

Large firms are focused on identifying and developing technology subject matter experts (49%) and deploying new business application/systems (43%). And, though it is a lower priority overall, 32% indicated that hiring staff or acquiring a company with expertise is a consideration for achieving their technology goals. Large firms expressed less urgency to develop a budget for strategic investment and identify a champion to lead the initiative, likely because these resources are already in place.

Medium-sized firms also focused on deploying new business application/systems (39%), identifying and developing technology subject matter experts (38%) and developing budgets for strategic investments (37%). Small firms also focused on developing a budget for strategic investment (42%).

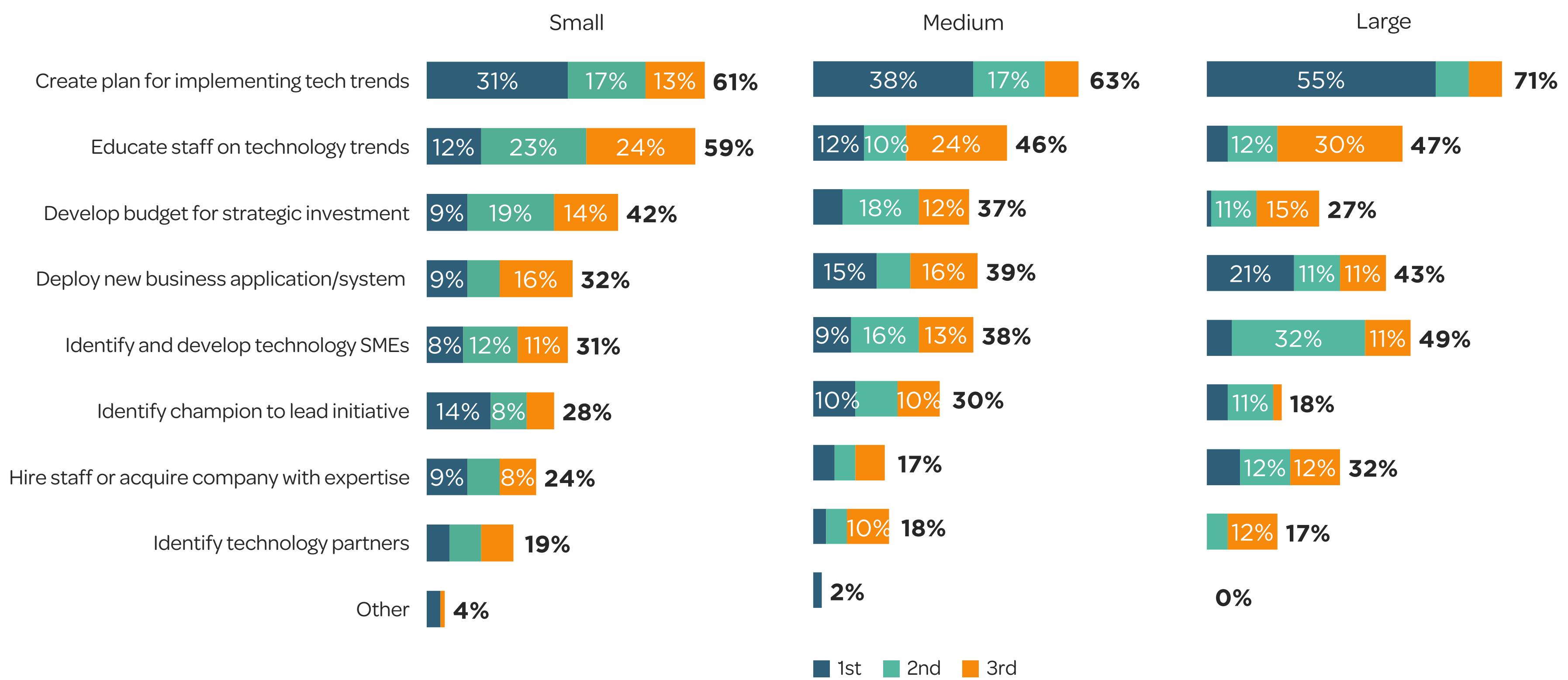
Large firms benefit by having more resources on hand to achieve their goals. Still, medium-sized and small firms have plenty of opportunity to leverage their own unique strengths. Regardless of where each is on the digital maturity spectrum, continued strategic discussion and steady progress/adoption is essential to maintain a competitive posture.

Priorities are strategic planning and educating staff to implement technology

Large and medium-sized firms focused on identifying and developing technology subject matter experts

Small firms focused on developing a budget for strategic investment

Top Technology Trend Initiatives by Firm Size



01

CLARITY OUTLOOK

TECHNOLOGY TRENDS

Strategic investment in advancing digital transformation is top of mind among A&E leaders. In 2023, firms prioritized technology investments that improve operational efficiency and staff performance.

A&E firms have largely embraced technology as a tool to overcome persistent challenges with project management and supportive functions. More firms than ever have deployed Cloud/SaaS solutions to more than 80% of their firm's IT infrastructure. Leaders across all business sizes rank the creation of strategic plans for implementing tech as their #1 tech trend initiative, but firms should also be looking at more incremental improvements that don't require a formal plan.

These firms have taken proactive measures to maintain operational flow and competitive practicality. Facing these obstacles head-on is vital for A&E firms to navigate the evolving technological landscape successfully and to remain agile in meeting client demands and industry standards.

By addressing these challenges now, A&E firms of all sizes can position themselves more effectively to adapt to imminent AI-powered technology or other advancements as they arise. This stance empowers firms to seize opportunities for innovation and growth in an increasingly competitive market environment. Staying ahead of tech trends and conquering planning and implementation challenges are imperative for A&E firms to thrive.

02

BUSINESS DEVELOPMENT

Firms remain optimistic with net revenue growth forecasts holding firm at nearly 11% year-over-year growth.

In 2023, win rates for A&E firms were stable year over year and the overall capture rate rose slightly to 48.7%. Notably, revenue from the top three clients grew, yet firms are looking to diversify project portfolios through strategic networking and prospecting.

Proposals submitted and awarded grew yet value decreased by

40%

“There never seems to be enough time for business development and marketing and as staffing challenges continue, firms need to look for efficiency through technology. Firms are starting to use AI for improving marketing operations and enhance BD, but we are just scratching the surface.”

—MEGAN R. MILLER, CPSM, DIRECTOR, PRODUCT MARKETING, DELTEK

ADDRESSING TOP BUSINESS DEVELOPMENT CHALLENGES

1 Time to Nurture Client Relationships

Nurturing client relationships will be even more challenging with continued market growth and client diversification. Firms are increasingly looking to cross-train staff and spread BD responsibilities, however, increasing utilization rates can make time dedicated to BD efforts difficult. Easing administration burdens through greater adoption of tools and processes will provide more time for nurturing relationships.

2 Increased Competition

Increased competition requires firms to differentiate and enhance brand recognition. Investing in strategic relationships and nurturing existing client relationships is critical to holding competition at bay. Investment in thought leadership and tech advancement can help set firms apart in the market.

3 Identifying New Prospects

Identifying new prospects remains an evergreen BD challenge. Diversification is strategically important, but prioritizing opportunities that are a good fit increases win rates and eases delivery challenges. Finding the right teaming partners to identify and pursue opportunities outside of traditional offerings will be critical for further diversification.

BUSINESS DEVELOPMENT OVERVIEW

The outlook remains positive as firms forecast 10.9% net revenue growth marking an increase (+0.7 points) over last year. However, this growth comes against a backdrop of shifting challenges. While employee turnover has stabilized, it continues to hover at 14%. Labor costs continue to be a challenge as well as developing existing talent to meet project delivery needs. As a response, firms are increasingly seeking suitable teaming partners and leveraging strategic networking to source and close new business opportunities.

The industry also witnessed considerable growth in proposal activity, with a 15% increase in submissions and an impressive 86% surge in awarded contracts, primarily driven by large firms. A contributing factor is a drop in proposal value, falling 40% year over year.

This could be the result of work on existing buildings continuing to be a strong opportunity area for work, notably in reconstruction, renovation and interiors versus new builds. It could also be infrastructure projects getting broken into smaller projects, creating more pursuits with lower revenue. With this rise in proposal volume, the importance of determining whether a project was a good fit for a firm's type of work rose nine percentage points year over year.

Furthermore, the landscape of marketing tactics and digital engagement strategies is evolving. Tried and true tactics of social, trade shows and client-specific marketing, are being enhanced with a greater focus on thought leadership.

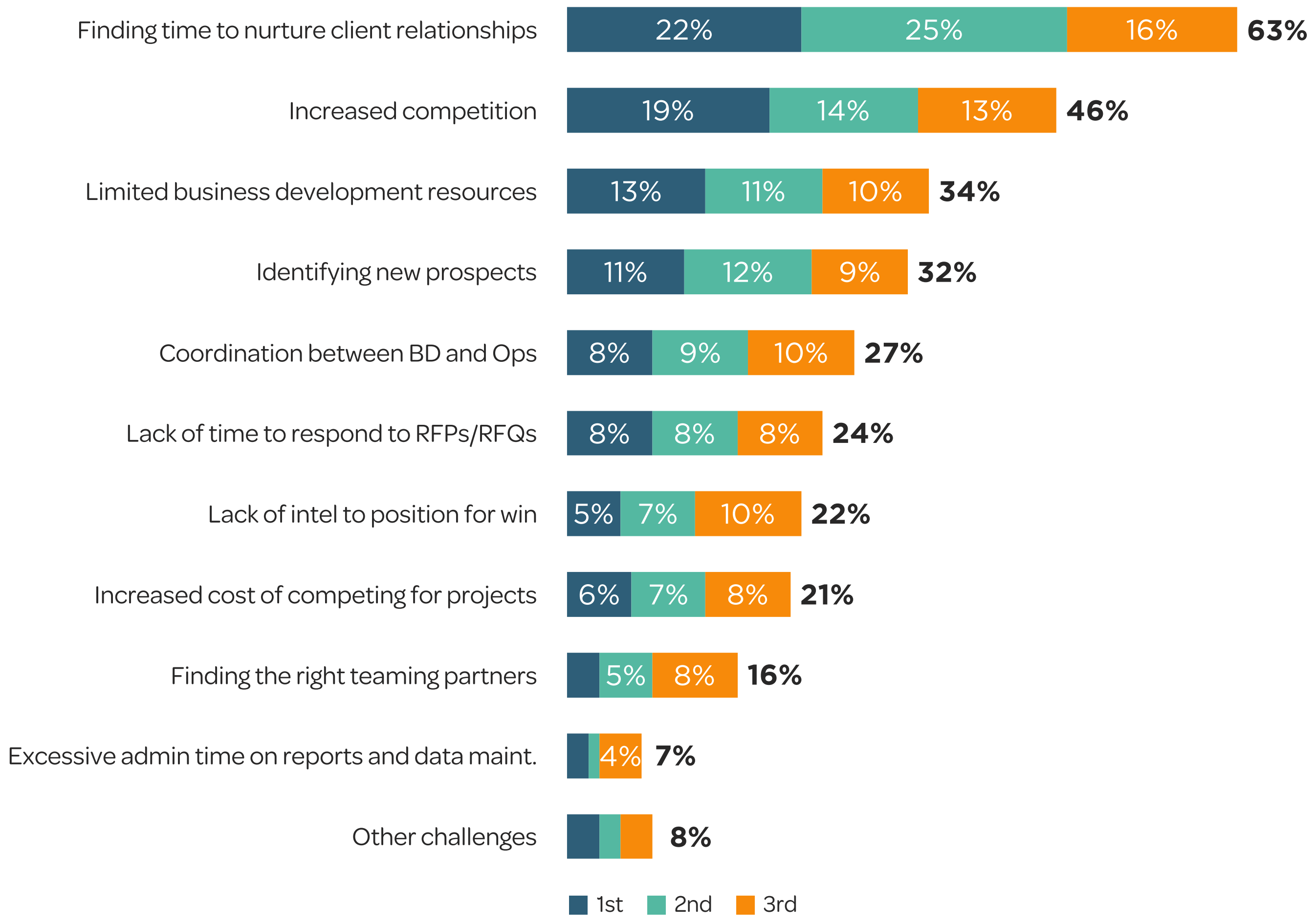
Win rate declined slightly to 49.1%. The focus on finding teaming partners and strategic networking grew in importance, as proposal dynamics shift, focusing on fit versus quantity.

Top Business Development Challenges

Firms highlighted consistent challenges in business development. Over the next three years, top concerns continue to be finding time to nurture client relationships (63%) and increased competition (46%). While these challenges persisted into 2023, their importance decreased slightly year over year. Growing challenges included worries about limited business development resources (+5 points), how well BD and operations-focused staff are coordinating activities among themselves (+3 points) and a general lack of business intel for information on leads and positioning (+5 points).

Other highly ranked concerns that can be related to growth are identifying new prospects (32%), response time constraints for RFPs/RFQs (24%), as well as increased cost of competing projects (21%).

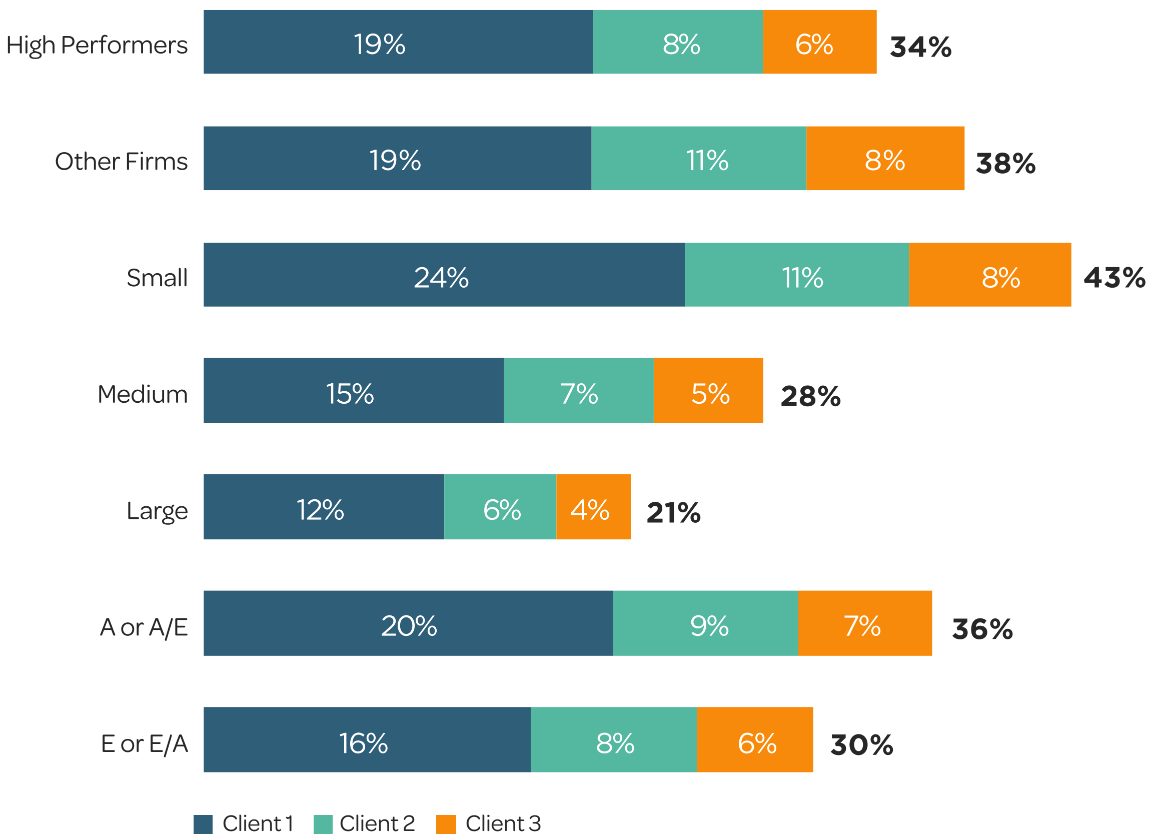
The findings highlight the enduring importance of relationship-building and building strategic partnerships to help identify and source new opportunities but also the need for the right technology, data and supporting processes to support strained BD resources.



Revenue from Top Three Clients

Overall revenue from the top three clients grew to 33% (+2 points), increasing risk of consolidated revenue across a few key clients. Small and large firms experienced the biggest increase (+5 points/+6 points) while medium-sized firms went against the trend declining (-2 points).

In contrast, high performers experienced the biggest decline, dropping revenue from top three clients to 29% (-5 points). Architecture and engineering firms both remained flat year over year.



33%

+2

46%

+0.2

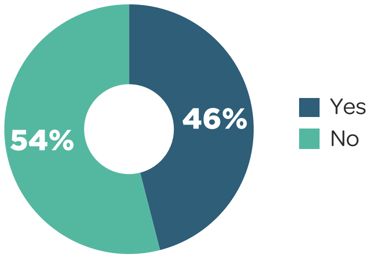
Firms with a Formal Business Development Process

Firms utilizing a formal business development process ticked up slightly to 46% (+0.2 points) driven by growth in small and large firms (+2 points/+4 points). Medium-sized firms remained flat. Architecture and engineering firms each experienced gains with architecture firms leading growth (+7 points/+3 points).

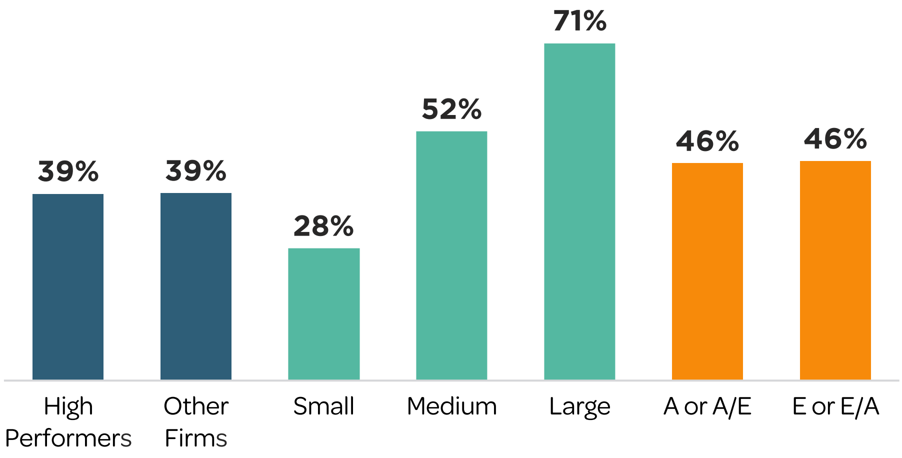
The overall adoption of formal business development processes becomes increasingly important as proposal submissions rise. As firms submit more proposals, they should look to leverage a formal BD process or refine their current processes to ensure they are investing in the right opportunities and are better positioned to win projects that best fit with core strengths and competencies.

While business development is not an exact science, firms can explore consistent BD tactics and best practices to help teams make the most of limited BD time.

Firms with Formal Business Development Process



Firms with a Formal Business Development Process by Firm Size/Type

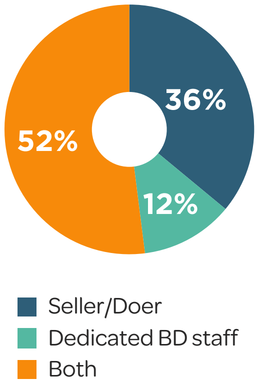


Business Development Model

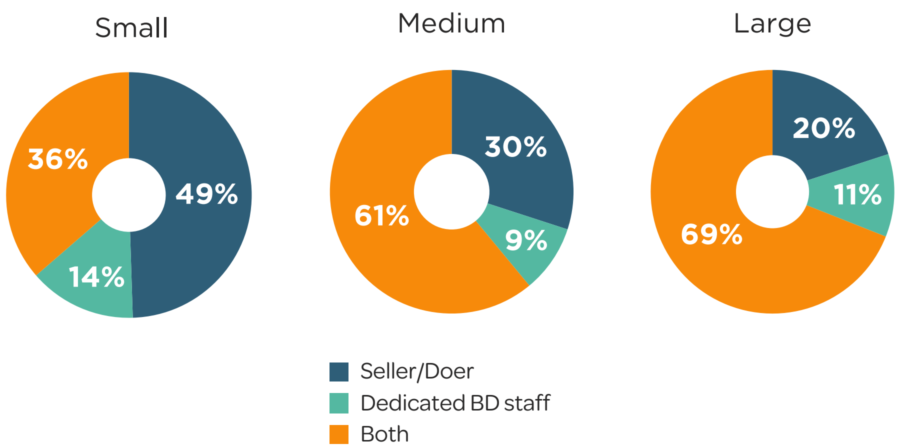
When asked about their business development execution models, firms reported a shift and preference towards a blended approach in 2023 (rising from 49% to 52% of firms), which entails utilizing a combination of both seller/doer and dedicated business development staff to reach their targets and goals. More than a third of firms still use a seller/doer only model, with more small firms favoring this model in 2023, showing an increase of three percentage points year over year. This is not surprising since many smaller firms may not have the ability to dedicate staff to business development activities. In contrast, medium-sized and large firms saw declines in the seller/doer model, down by four and 13 percentage points, respectively.

Regarding whom is responsible for business development within firms of different sizes, respondents indicated the primary responsibility is resting on dedicated business development staff and the executive team. While PMs are often involved in pursuits, more PMs are taking on BD activities further up funnel in 2023 than in 2022 as firms look to leverage more staff for pursuits.

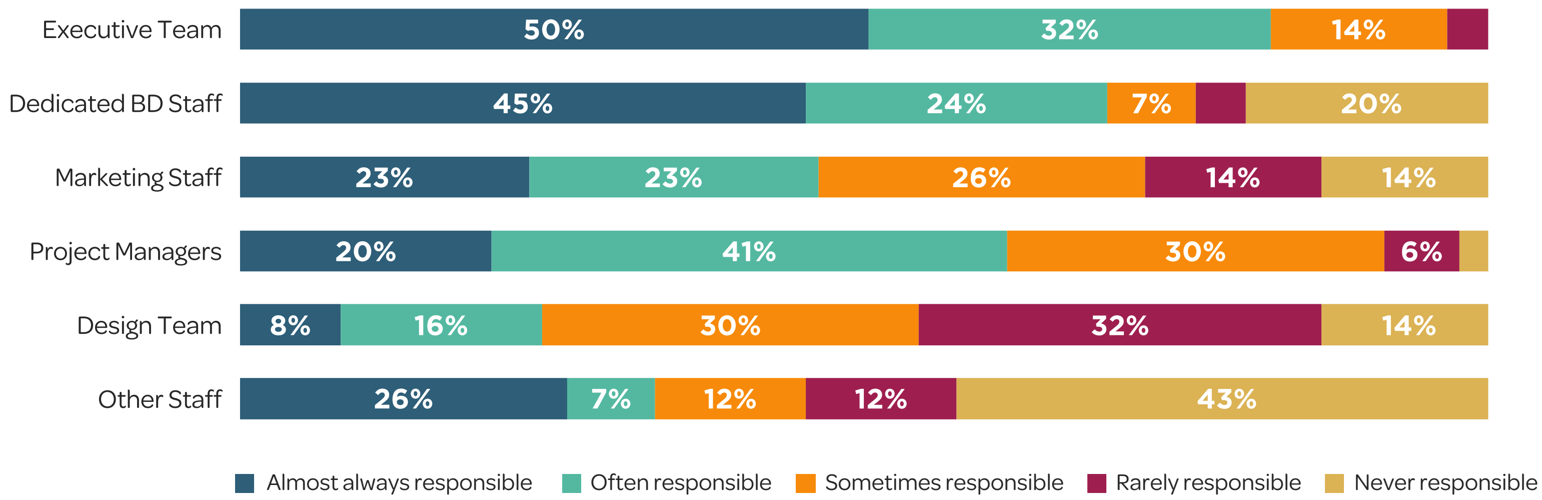
Business Development Model



Business Development Model by Firm Size



Responsibility for Business Development



Employing Go/No Go Processes

With proposal submissions on the rise and BD resources remaining constrained, employing a formal go/no go process becomes increasingly important when determining which projects are worth pursuing. Findings showed that while the overwhelming majority of firms (80%) currently employ a go/no go process, growth has remained flat. A positive trend shows firms moving away from reserving a go/no go process for new clients/projects only (-4 points) to 45% of firms utilizing it for all opportunities (+5 points).

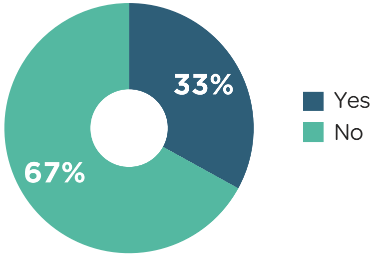
Among firms that don't employ a formal go/no go process, only 33% are considering it, down eight percentage points from the previous year, driven by small and large firm declines.

80%

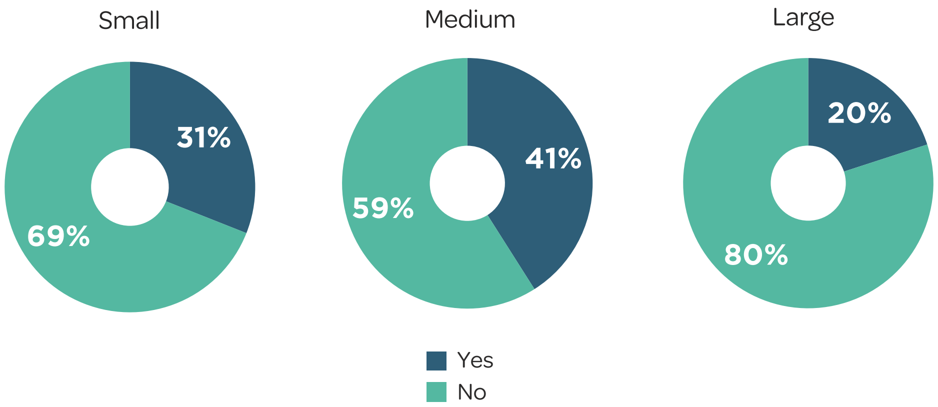
+0.0

Employing Go/No Go Processes

Considering Go/No Go Processes



Employing Go/No Go Processes by Firm Size



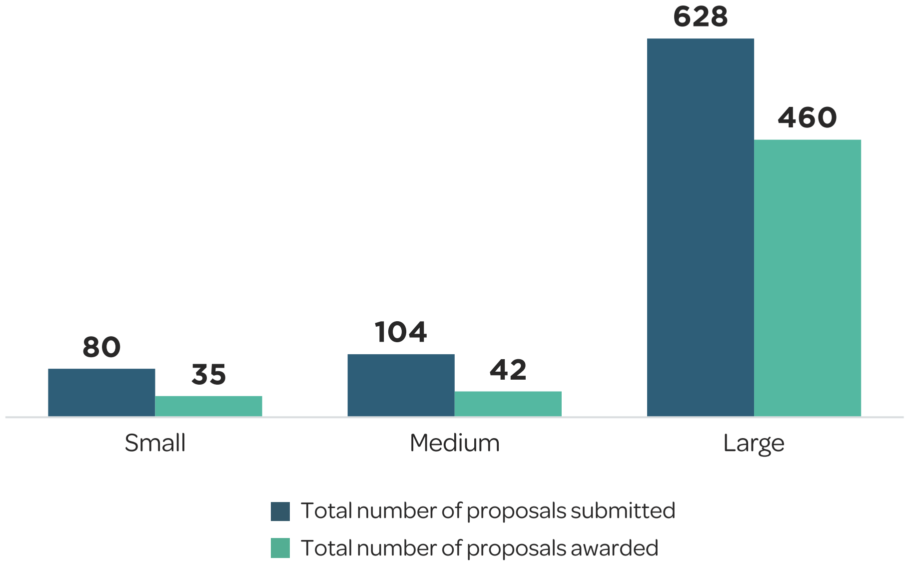
Proposal Volume

Firms reported a large increase in both the number of proposals submitted and awarded. Year over year, proposal submissions grew by 15% while awarded proposals grew by 86%. Large firms were the primary drivers of this growth, with submissions increasing by 40%.

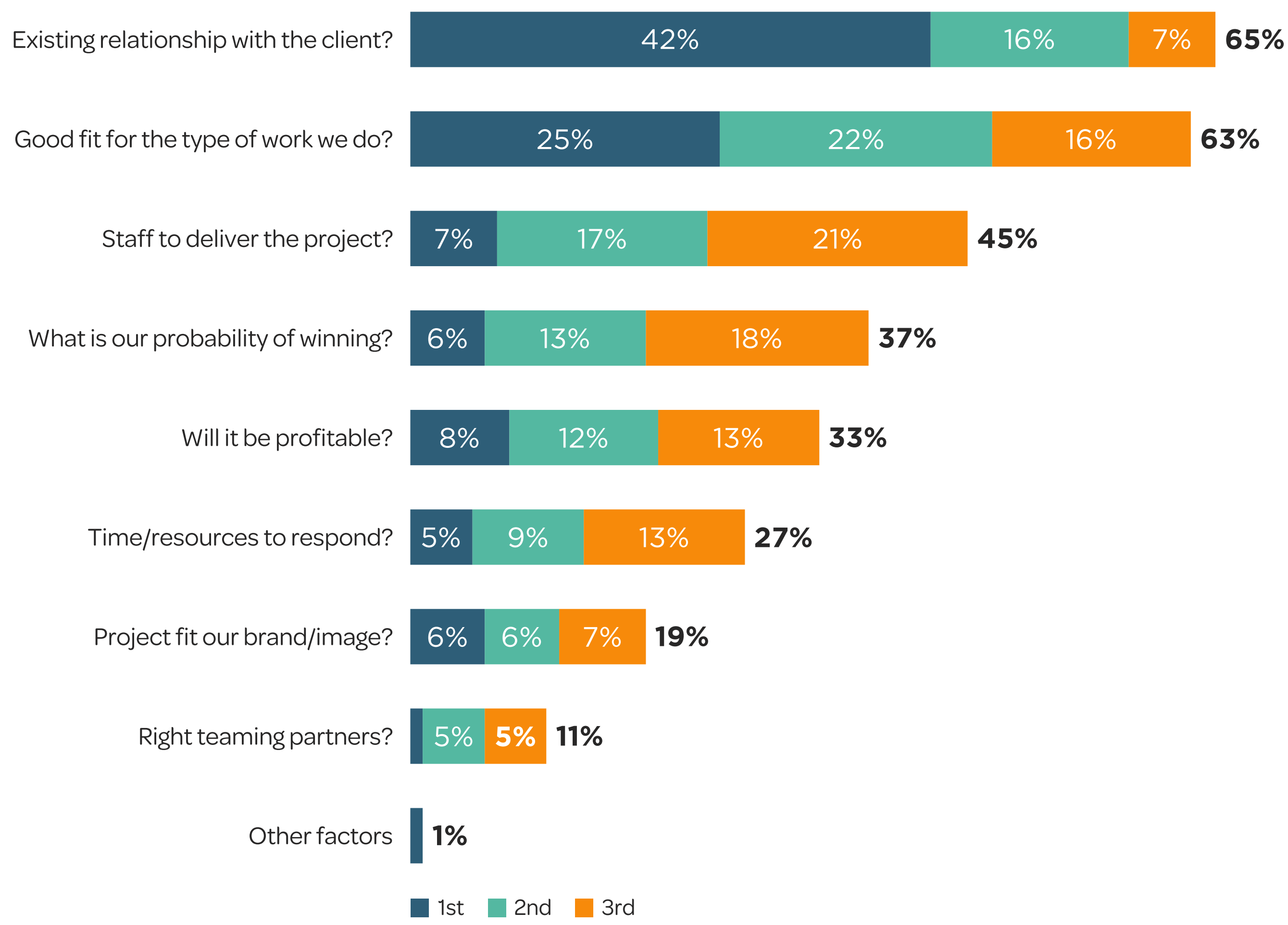
While the number of proposals submitted increased, there was a decline in overall value of proposals, down 44%. With the trend of renovations versus new builds, firms are likely hitting revenue goals with smaller projects.

When deciding whether or not to propose on a project, existing client relationships, the top factor year over year, declined in importance (-7 points), whereas fit for the type of work increased (+9 points). In the quest for higher win rates and utilization of existing staff, firms are focusing limited BD resources on projects that best align with their strengths. A focus on diversifying revenue beyond current clients could also be at play here.

Number of Proposals Submitted vs. Awarded



Factors Influencing Proposal Submission



49.1%

-0.5

Top Quarter

65.5%

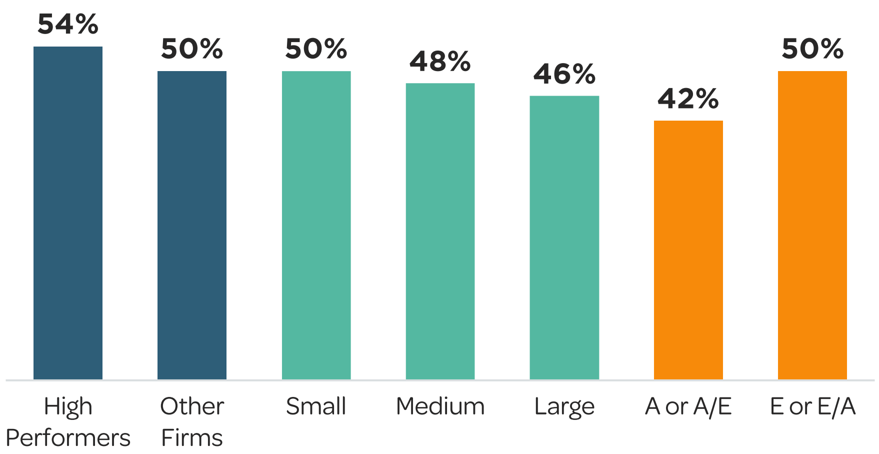
Bottom Quarter

37.1%

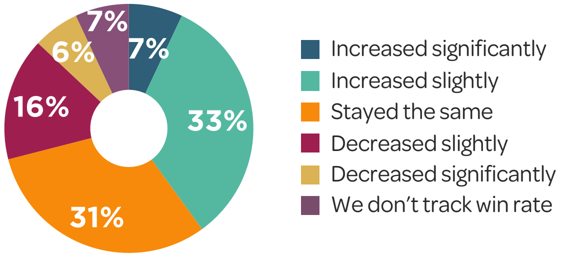
Total number of competitive proposals awarded divided by total number of competitive proposals submitted.

Win Rate

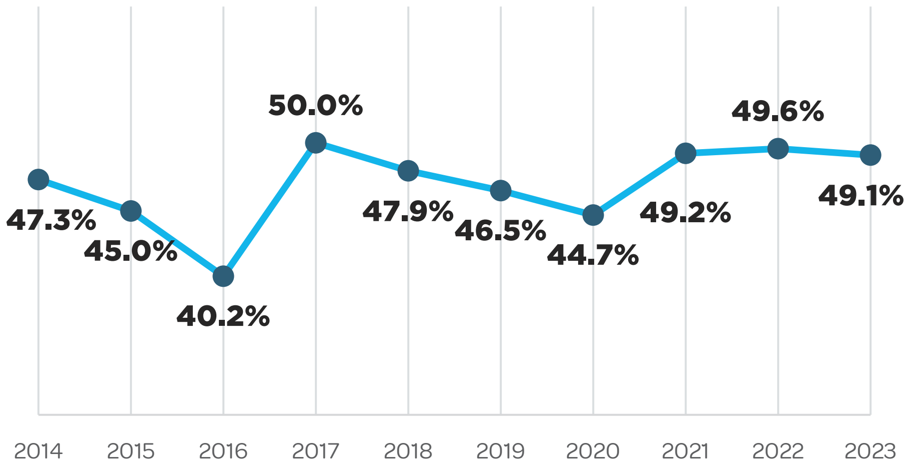
The overall win rate dipped slightly year over year (-0.5 points), notably affecting medium-sized firms (-2 points). Overall, 22% of firms reported declines in win rate versus 14% a year ago, underscoring the continued challenge of securing new and recurring projects. High performers saw the largest gains in win rates, rising from 50% to 54% year over year while 31% of firms reported no change in win rate.



Win Rate Change



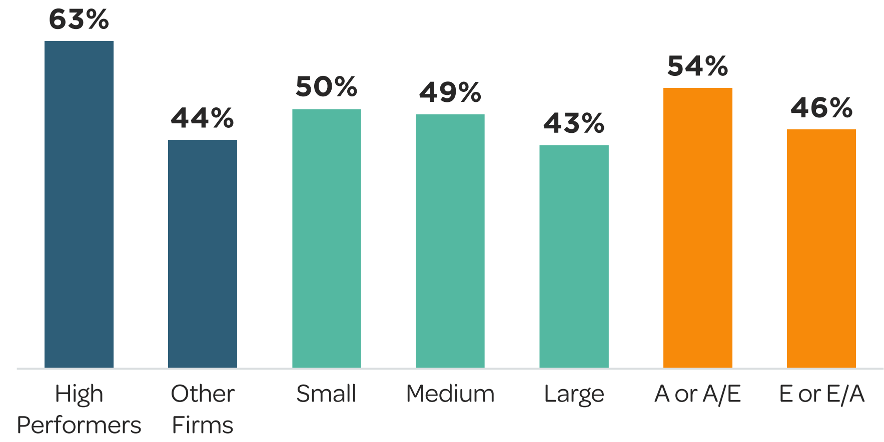
Win Rate: 10-Year Trend



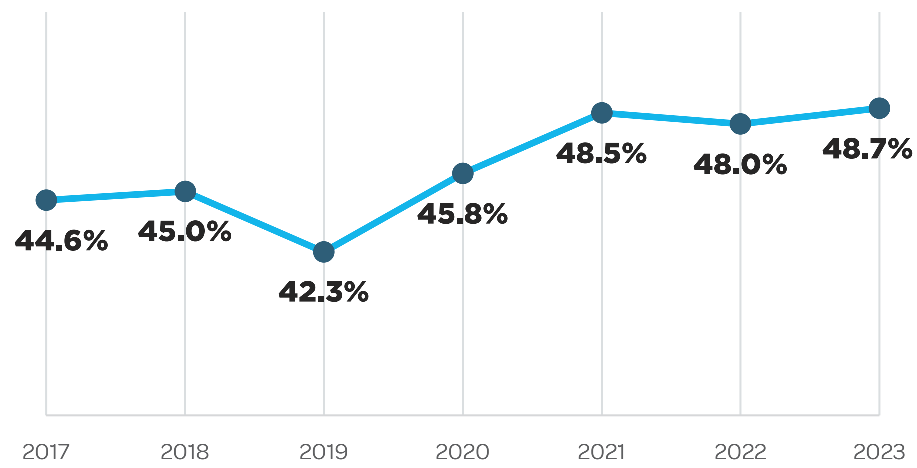
Capture Rate

While win rate measures the number of proposals submitted to number of proposals awarded, capture rate measures the total dollar value of the proposals submitted compared to those awarded.

Overall capture rate remained relatively flat year over year, climbing nearly one percentage point fueled by large firms up 10 percentage points. Small and medium-sized firms in contrast remained relatively stable. High performers performed very well, growing eight percentage points to a 63% capture rate. Architecture firms also realized gains in capture rate, growing to 54% (+10 points).



Capture Rate: 7-Year Trend



48.7%

+0.8

Top Quarter

66.7%

Bottom Quarter

31.3%

Total dollar value of competitive proposals awarded divided by total dollar value of competitive proposals submitted.

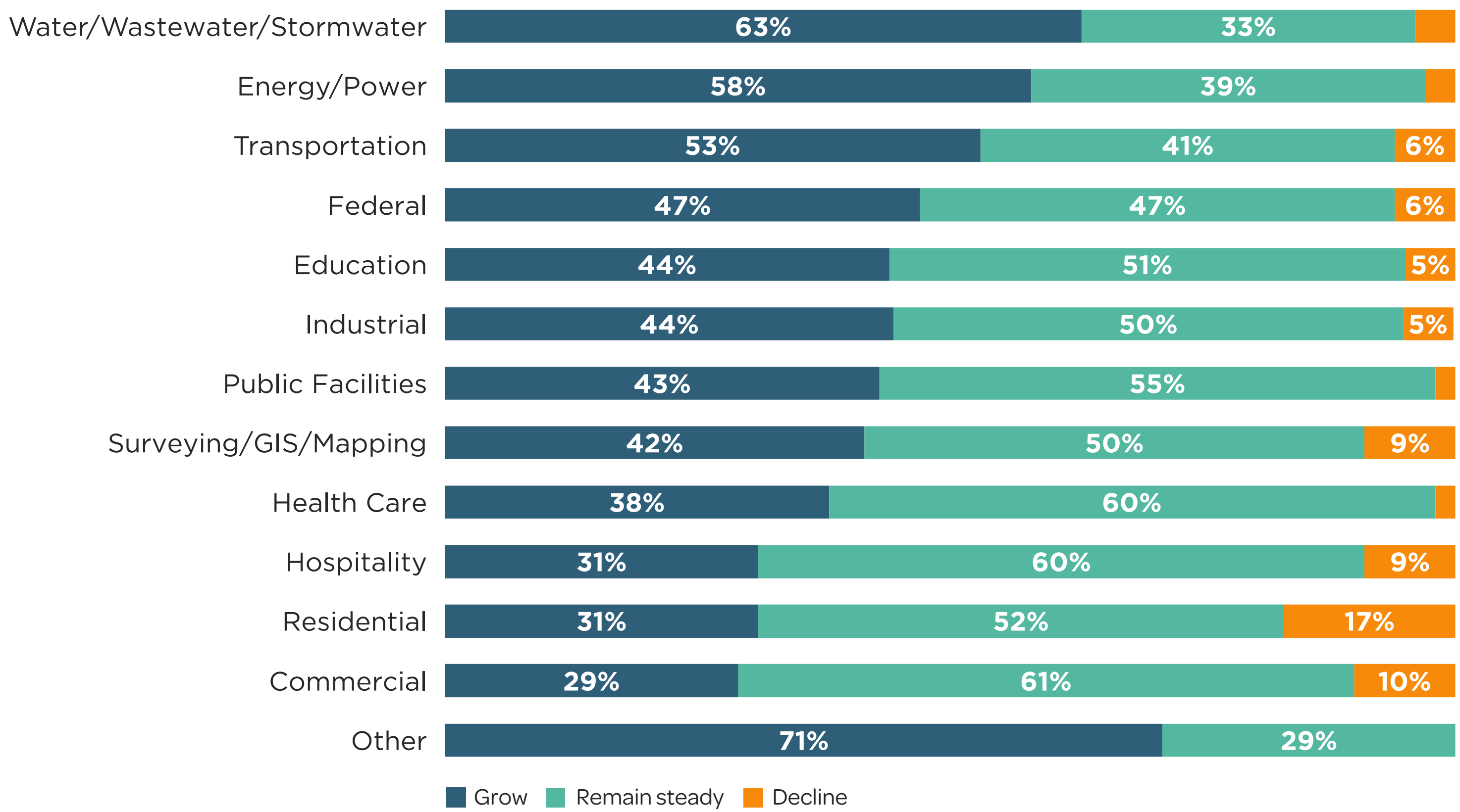
Market Position in the Next 18 Months

A&E firms were asked whether they expect their firm's position in various markets to grow, remain steady or decline over the next 18 months (through mid-2025).

Firms are expecting to see the most growth for their firms in water/wastewater/stormwater, fueled by continued spending from the Infrastructure Investment and Jobs Act (IIJA). Nearly 60% of firms expect their position in energy/power to grow, up from 56% the previous year, while 44% of firms expect their position in education to grow, up from 38% the previous year. Additional growth is expected in the hospitality sector, in which 31% of firms expect more opportunities and project awards for their firm (+9 points).

Conversely, the transportation and health care sectors are expected to experience slower growth over time but remain strong with 53% of firms projecting growth in transportation (-12 points), and 38% projecting growth in health care (-10 points).

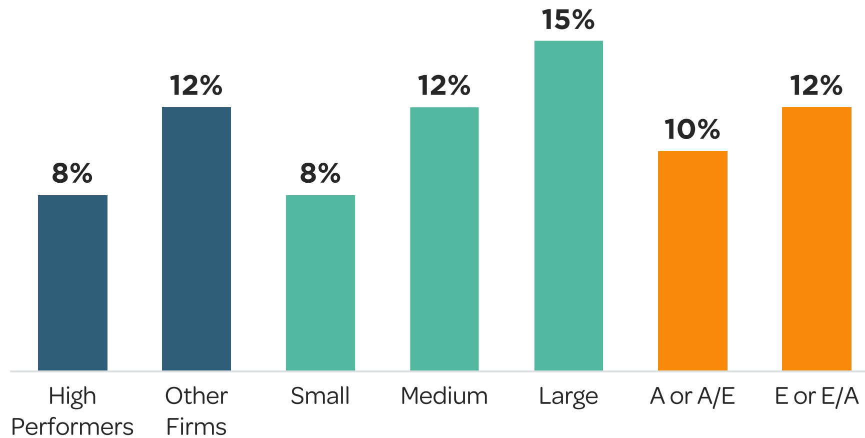
Worth noting are markets firms expect to decline either because they are choosing not to pursue work in those markets or there are fewer opportunities. The markets with the highest expected decline are residential (17%) and commercial (10%) as well as surveying/mapping (9% each).



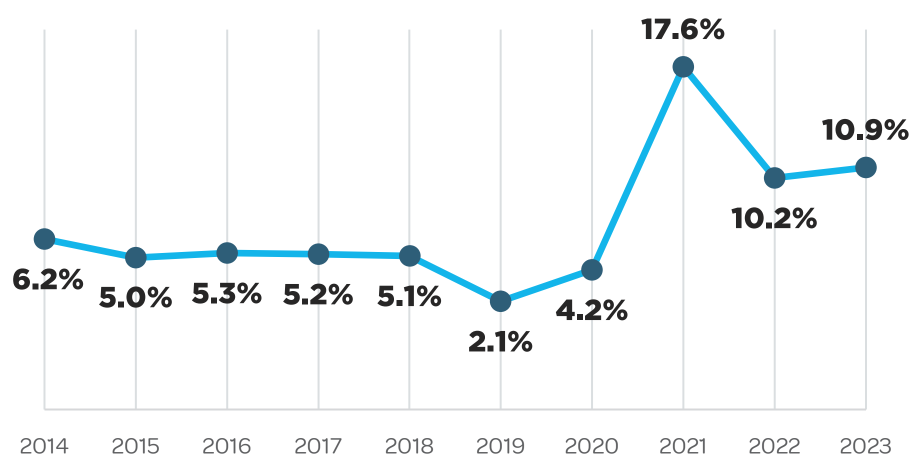
Net Revenue Growth Forecast

The median net revenue growth forecast experienced a moderate increase to 10.9% (+0.7 points). With strong performance the previous two years, the forecast is extremely favorable. This growth was primarily propelled by medium-sized and large firms (+3 points/+2 points). While small firms were less optimistic, declining three percentage points, they are still expecting a strong year-over-year growth of eight percentage points. Both architecture (10%) and engineering (12%) firms are predicting steady gains.

Looking at the trend, the last three years have had substantial year over year growth expectations, creating new challenges for business development leaders and project managers to secure and deliver more projects each year.



Net Revenue Growth Forecast: 10-Year Trend



10.9%

+0.7

Top Quarter

26.7%

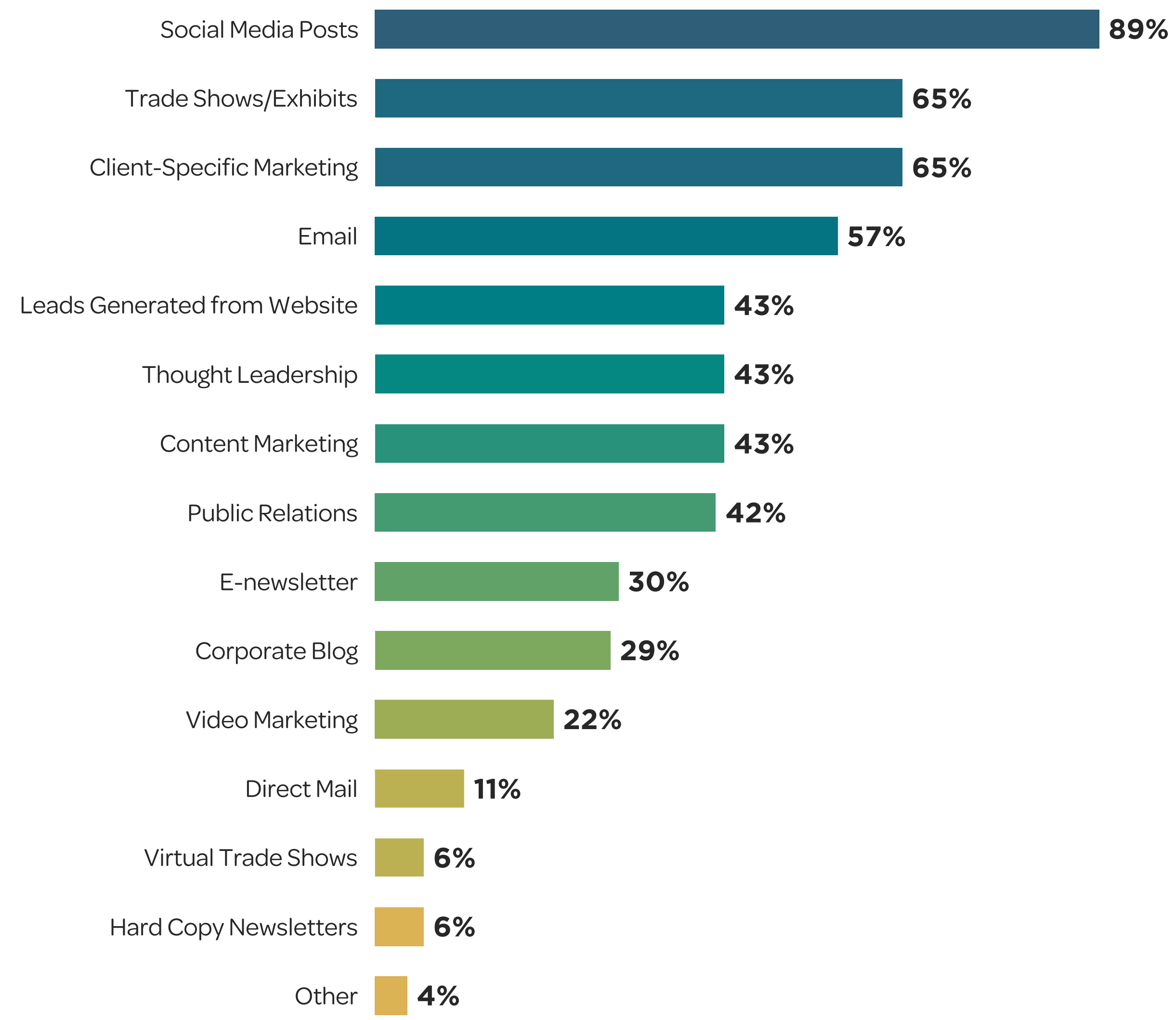
Bottom Quarter

-0.2%

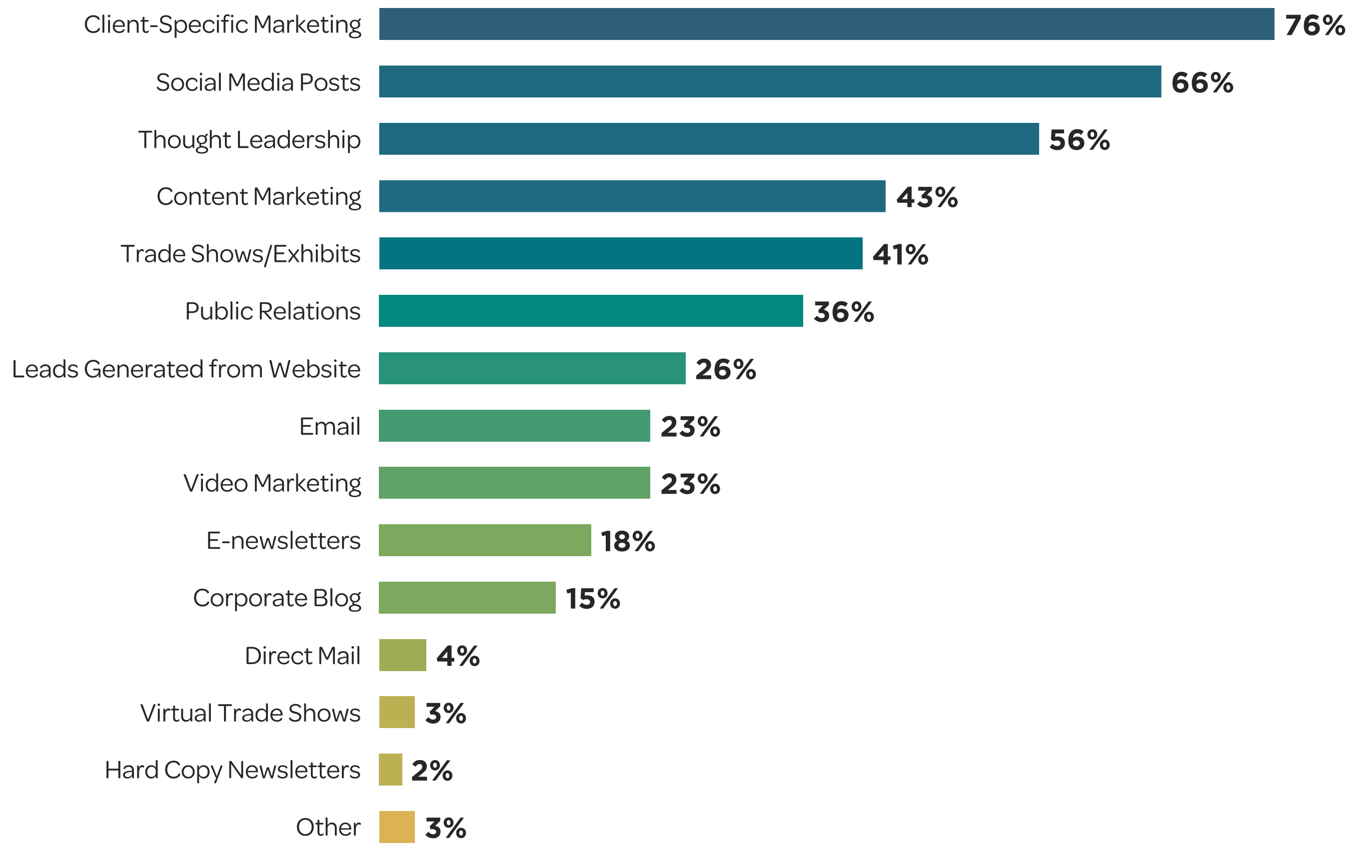
Top Marketing Techniques

In 2023, firms employed a mix of marketing techniques and technologies to reach and engage a wider range of clients and prospects. Social media, in-person tradeshows and client-specific marketing efforts remained A&E businesses' top choices year over year although firms expect social media's importance to decline in the next 3 years (-4 points). Newer tactics like content marketing saw a rise (+5 points), as did corporate blogs (+8 points) as firms look for new ways to leverage thought leadership and experience to stay relevant and visible to current and potential clients. Emerging AI tools have made quick inroads into easing content creation and development. Firms are leaning into AI to help speed to market with these types of initiatives.

Interestingly, leads generated from firm websites is one of the few tactics that experienced a decline in use, both now (-3 points) and in the next five years (-1 point). As one of the more passive tactics (and one of the most time-consuming to update), websites are declining in relevance as clients and prospects are looking for more dynamic sources of information.



Marketing Technique Importance in Five Years

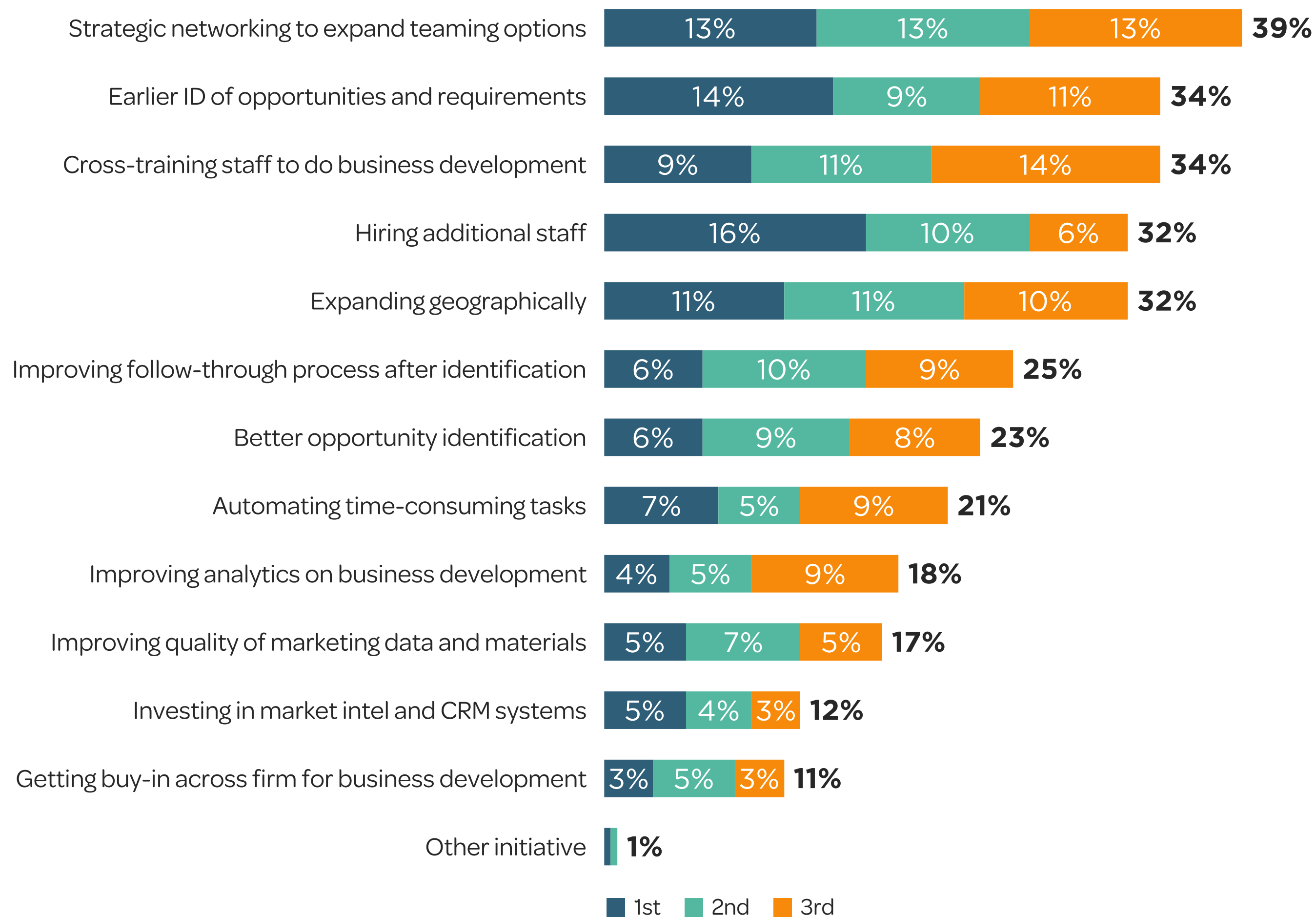


Top Business Development Initiatives

Strategic networking to expand teaming opportunities rose 12 percentage points to emerge as the top business development initiative, correlating with finding the right teaming partners growing as a top BD challenge. Firms are increasingly looking outward to round out gaps in expertise in order to pitch and close new business. Cross-training staff and hiring staff continued as top initiatives to address limited BD resources.

Also on the rise were improving follow-through and automating time-consuming tasks (+3 points/+2 points). A greater focus and investment on tools would help BD staff remain more organized and focused, providing more time for strategic pursuits.

Earlier identification of opportunities (formerly the top challenge) and better opportunity identification each declined year over year (-2 points/-7 points). With proposal volume and opportunities on the rise, some firms have shifted focus from surfacing and identifying opportunities to finding the right partners to land them.



02

CLARITY OUTLOOK

BUSINESS DEVELOPMENT

Net revenue growth forecast edged up to 10.9%, predicting continued positive market conditions. With the rise in proposal volume, firms should be challenging themselves to be more selective, focusing on the right pursuits with the highest likelihood of winning.

The outlook remains positive, but firms continue to be challenged with doing more with less. Employee turnover, while stabilized, is still high. Limited BD resources continue to be a challenge, with firms increasingly looking to cross-training and spreading responsibility across project managers and other staff.

While nurturing client relationships remains a focus, firms are leaning more into networking with new teaming partners to identify and pursue new clients and projects. Revenue from top three clients ticked up in 2023. Firms should continue teaming with others to identify and close diversified opportunities.

Expanding use of formal business processes and go/no-go criteria to all opportunities are positive trends as firms bring greater discipline and organization to BD efforts. Technology and tools amplify these efforts – steering away from spreadsheets and manual processes frees up time and resources for more strategic pursuits.

Marketing centered on thought leadership is increasing. Content marketing is gaining traction and expected to grow in importance in the next three years. But content creation can be time-consuming. Emerging AI tools have made quick inroads into easing content creation and should be prioritized.

03

PROJECT MANAGEMENT

Firms seek a balance between cost containment and investment to enhance project performance, with an emphasis on training project managers and providing better tools to improve project delivery.

Despite facing staff shortages, prolonged hiring processes and competing priorities, firms recognize that investing in training employees for project management and design delivery, alongside acquiring and utilizing tools to support their success, ultimately contributes to improving project performance, client satisfaction and the quality of deliverables.

69%

of A&E projects are on or under budget

“Training is key. A good PM does not necessarily bring to the job leadership skills that are key to coalesce a cross-disciplinary team that includes both colleagues within their firm, but also contractors, engineers, clients, and others.”

—**MICHELE RUSSO**, AIA

ADDRESSING TOP PROJECT MANAGEMENT CHALLENGES

1 Competing Priorities

Addressing competing priorities requires strategic planning to manage limited resources while upholding delineation of responsibilities. Project managers are pulled in many directions, so helping them to prioritize billable and non-billable tasks with options to delegate can give them room to be a better project manager. Allocating resources efficiently, prioritizing critical tasks and fostering a collaborative team environment can mitigate these challenges, improving project delivery and employee satisfaction.

2 Staff Shortages

Navigating through staff shortages necessitates proactive measures. Recruiting and retaining skilled professionals, investing in training programs and leveraging technology to streamline workflows are essential. Collaborating and teaming with other firms can also cultivate and nurture talent, ensuring the firm's long-term sustainability amid workforce fluctuations.

3 Inexperienced PMs

Mitigating the impact of inexperienced project managers is crucial for maintaining project quality and client trust. Providing mentorship programs, conducting regular performance evaluations and offering professional development opportunities empower novice managers to grow and excel. Additionally, establishing standardized project management protocols and fostering a culture of continuous learning can enhance the capabilities of the entire project management team.

PROJECT MANAGEMENT OVERVIEW

The last year showed that most firms continue to focus on four project management KPIs: net revenue, profitability, multipliers and average collection period. Firms reported markedly positive gains with client relationship management practices, indicating an industry-wide renewed interest in client feedback.

Yet as the quest for happier clients continues, the act of attracting and retaining skilled and competent project managers grows more arduous and costly over time. Firms are tackling these issues by setting their sights on formally training and upskilling their existing employees. This strategic move is now deemed an essential tactic to increase engagement, reduce turnover and limit project volatility. However, the evidence is stark: only one in five firms reports that at least 75% of their project leaders possess formal project management training.

Firms are turning to training solutions that supplement internal training programs and that provide flexibility for trainees to engage as their schedules permit, such as certifications provided by third parties. Despite these good intentions, fewer firms are utilizing clearly defined project management processes to keep projects on schedule. As more project managers earn job-specific education, it seems likely that more firms will improve project management processes that yield higher KPI results.

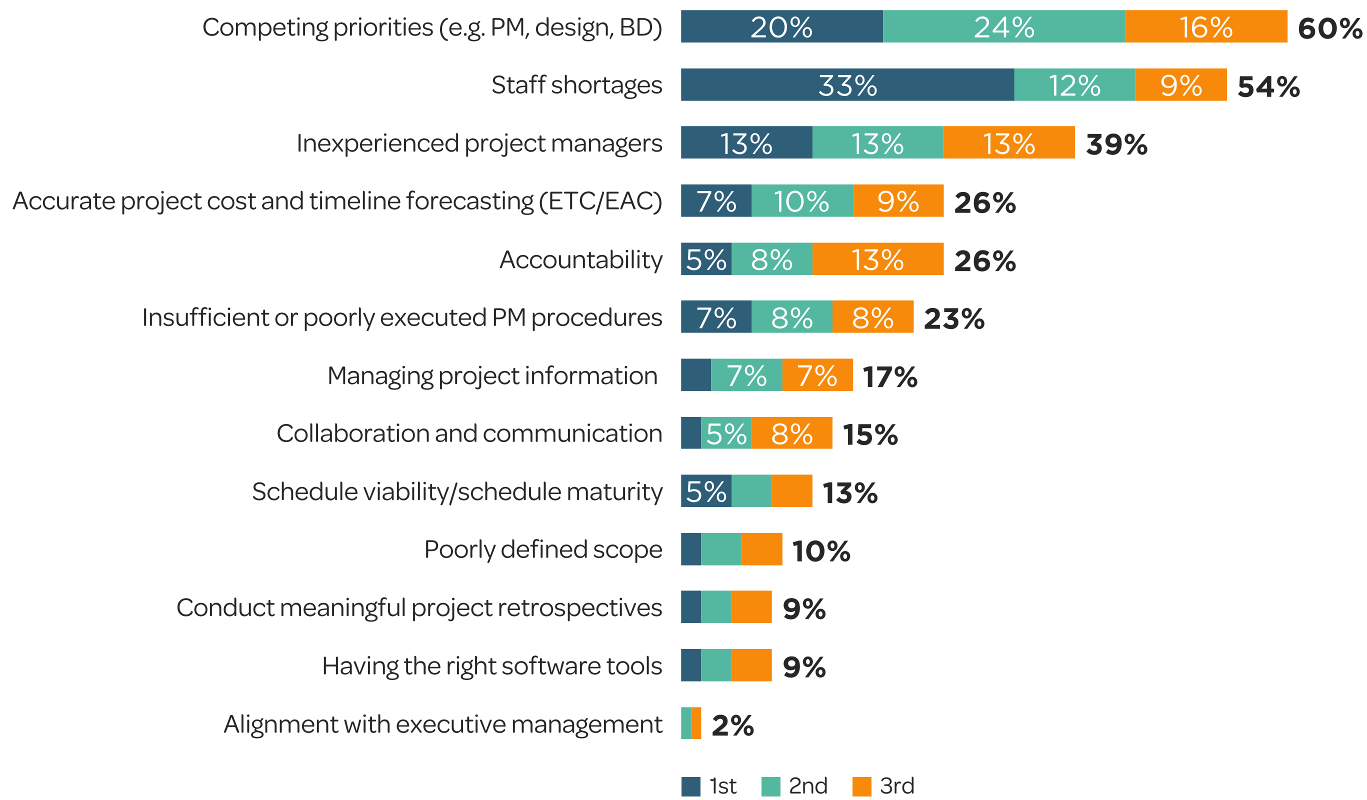
Looking to the near future, firms list competing priorities, staffing shortages and inexperienced project managers as the biggest challenges they'll face. In response, firms plan to invest in internal PM training, better define roles, develop internal best practices and hire more qualified staff. As project managers level up their skill sets and establish or improve best practices, we expect even more gains in KPI performance as internal project stakeholders will have greater access to an integrated picture of a project's needs, resources, limitations and opportunities.

Firms must be proactive and methodical in monitoring vital project KPIs. One strategy to attain success is to enhance the skills of project managers through third-party training programs that compliment in-house training programs.

Top Project Management Challenges

In the next three years, firms anticipate the ongoing challenge of managing continuously changing project needs and requirements. Similar to last year, firms are feeling the pinch for personnel and added pressure to manage billable and non-billable work, balance building the pipeline with managing and delivering work and choosing which tasks should be prioritized for strategic and operational success. Competing priorities (60%) and staff shortages (54%) ranked as the top two project management challenges, indicating that as a whole, project managers currently feel like they're getting stretched too thin and without sufficient support.

The frequent need to shift from project management to design to business development, and so on, runs the risk of burning out staff, potentially leading to more turnover that would further negatively impact remaining staff. It can also lead to critical tasks getting lost in the shuffle and client relationships suffering. Clearly defining roles and hiring specialists to fill them, along with establishing processes and better visibility into project management KPIs, such as scheduling, can help mitigate risk.



Respondents also indicated persistent challenges with inexperienced project managers, signaling a lack of (and need for) comprehensive, structured and up-to-date training programs and targeted project-specific professional development initiatives. With high utilization rates and increased workloads, firms are struggling to have the bandwidth to train new project managers. However, issues related to accountability reportedly decreased in 2023, likely due to better project and role visibility and oversight.

Firms that focus on aligning skill sets with specific operational and project needs, and filling gaps with targeted training and digital tools, will be in a position to turn their attention to more important initiatives, like innovation and growth.

Additional Challenges Facing Project Management

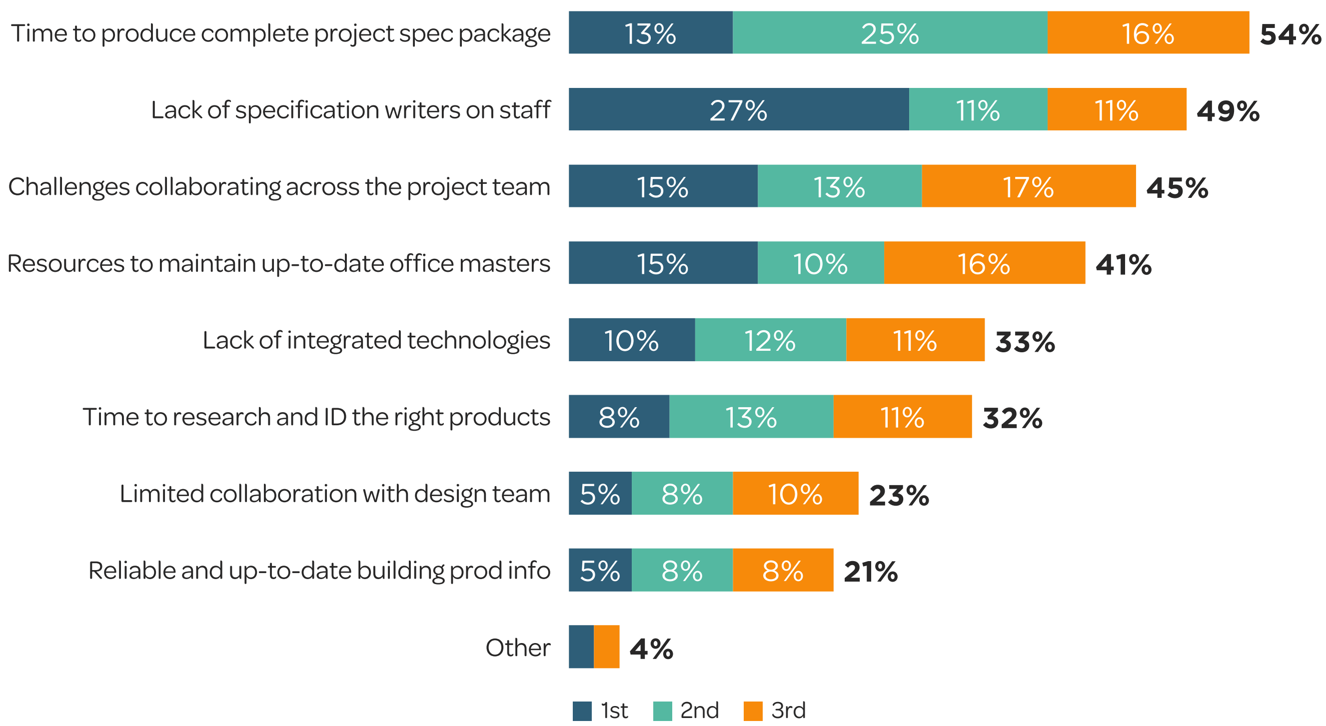
Persistent construction specification obstacles further compounded firms' success with 54% citing the time required to produce a comprehensive project spec package and the scarcity of specification writers on staff (49%) as top challenges. Collaboration across project teams jumped six percentage points, impacting the quality of deliverables and intensifying project workloads.

Managing the quality of deliverables and administrative workload remained top challenges managing project information for at least half of firms, while challenges associated with managing project email continued to edge up.

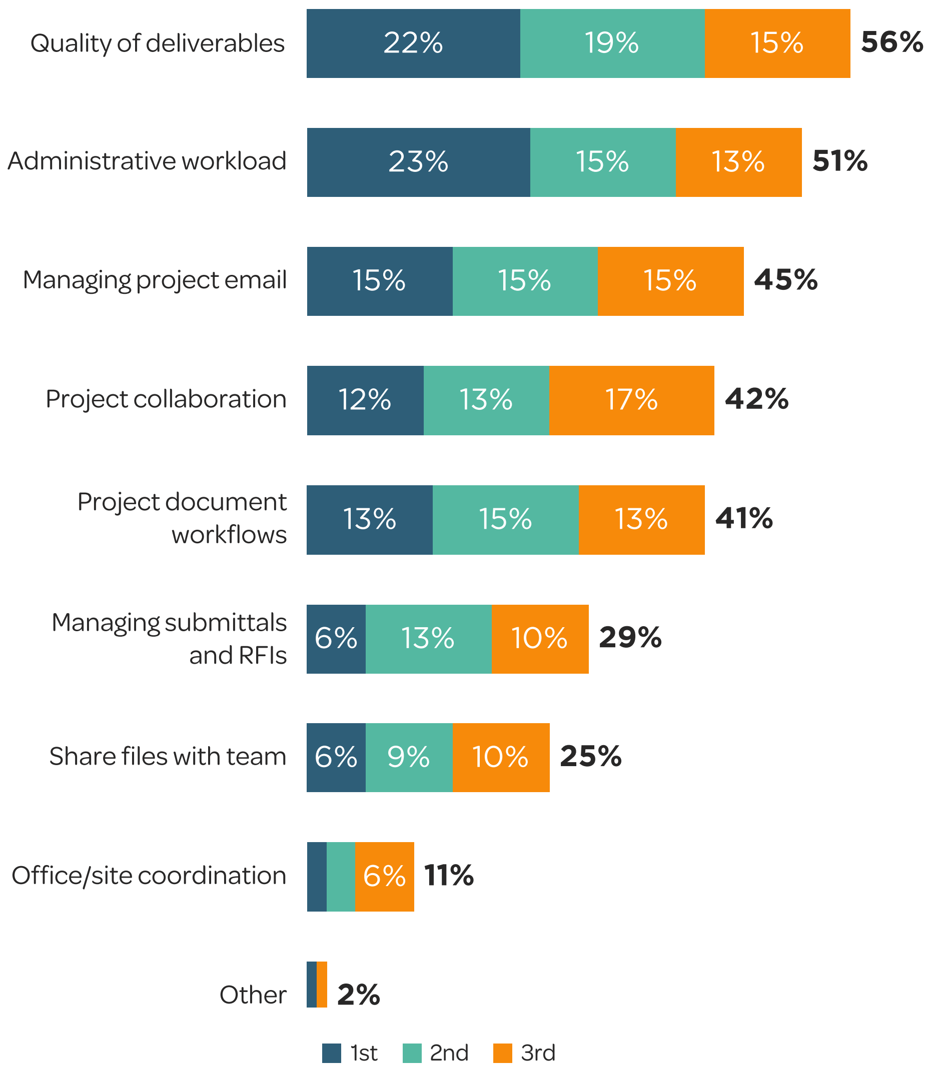
The flow of information from site visits further impeded project managers' ability to direct their teams and contractors and advise clients. Top barriers to managing site visits included combining handwritten notes and photos after site visits (61%), the amount of time needed to capture and report findings (59%) as well as the lag time between the site visits and report availability (53%).

These challenges compound as the project progresses; 35% of firms say the close-out phase is the most formidable. Firms that incorporate project management tools into their practice will reduce time required to complete repetitive tasks and increase productivity rates.

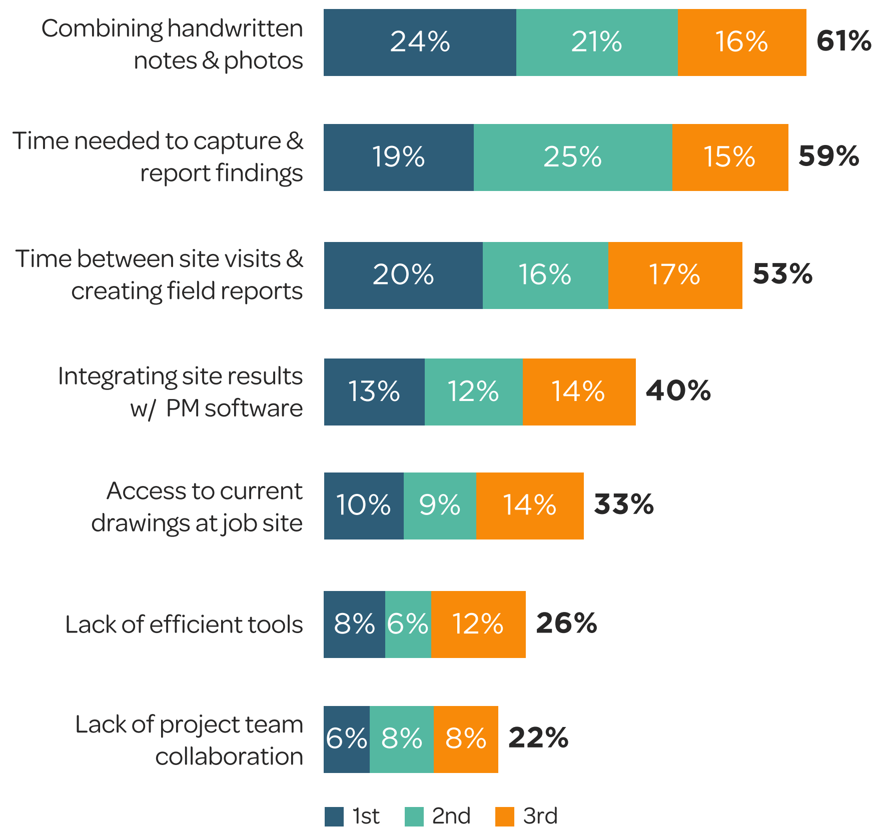
Top Construction Specification Challenges



Top Challenges to Managing Project Information



Top Challenges to Documenting Site Visits

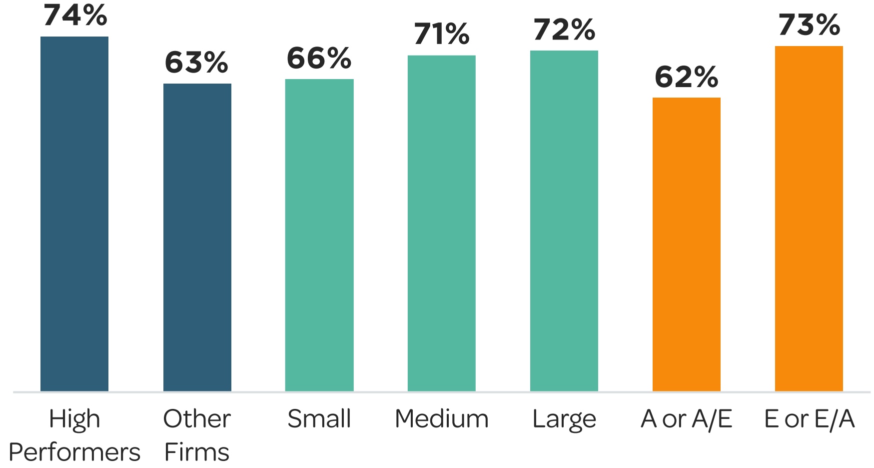


Projects On or Under Budget

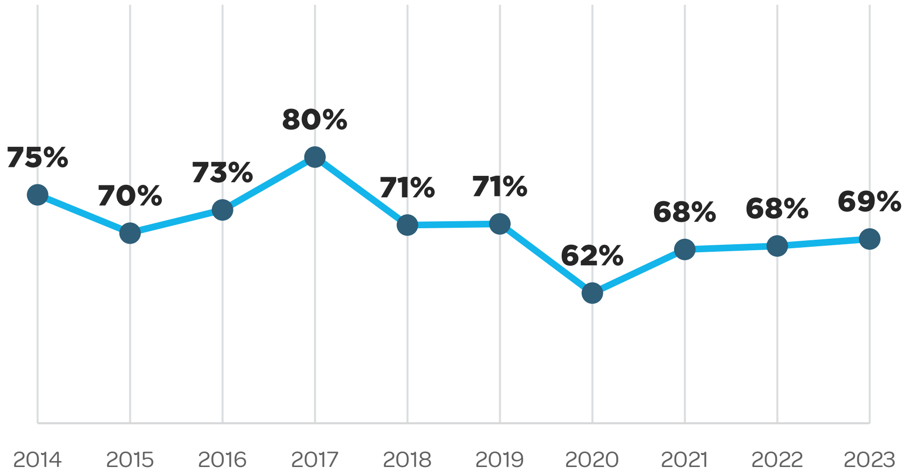
A&E firms reported a moderate but consistent uptick in projects currently on or under budget, continuing the positive multi-year rebound from the 10-year low posted in 2020. This indicates that, despite skilled labor shortages and declining project margins, firms are taking steps to improve and optimize their scoping, project management and project execution as a whole.

This was particularly evident among large firms and high performers, which reported multi-percentage point growth for this KPI versus the previous year, likely due to operational efficiencies and cumulative gains in cost-effectiveness. Yet, with firms pointing to execution and close-out phases as most challenging in the project lifecycle, there is a demonstrated need to improve project scoping, define project roles and manage expectations to improve project financials.

The more project managers can proactively manage projects and understand the project financials, the better equipped they will be to manage projects. Firms that provide greater visibility and training for PMs to know what is expected and how to get there will be in a better position to keep projects on track.



Projects On or Under Budget: 10-Year Trend



69.2%

+0.9

57.9%

-1.9

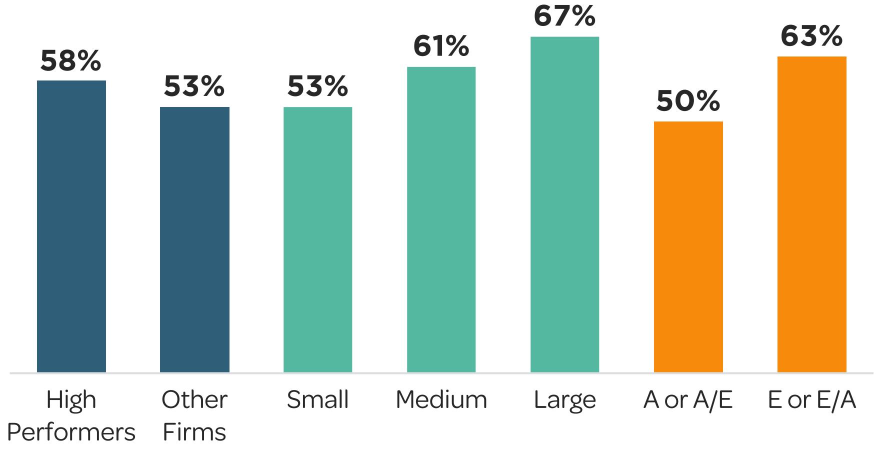
Projects On or Ahead of Schedule

Firms reported that 58% of projects were on or ahead of schedule, the lowest rate reported in seven years.

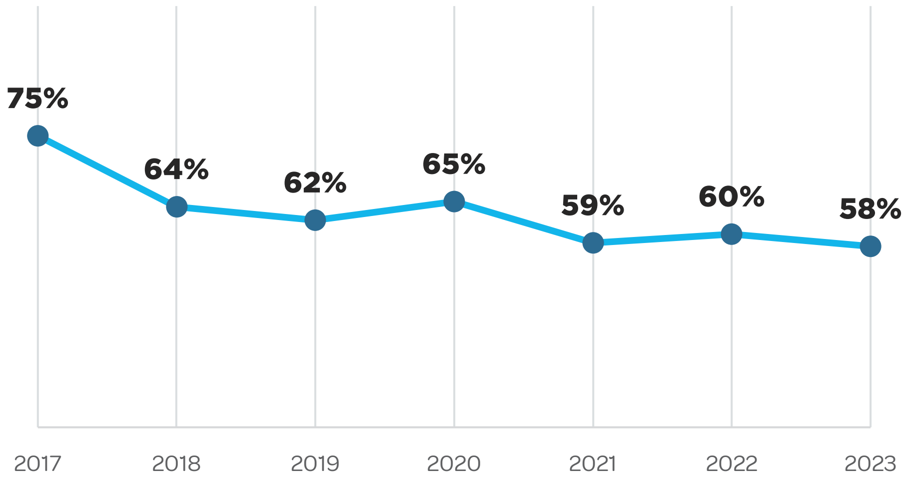
In order to meet project deadlines, project managers must have the right mix of personnel, tools and leadership. This proactive and agile approach becomes even more crucial in the face of slower hiring processes, greater needs for employee retention and escalating labor costs.

Real-time visibility into the status of project tasks empowers project managers to be faster and efficient in order to better control expenses, track KPIs and meet project delivery schedules, even when resources are limited. Developing empowered project leaders through training, supporting them with agile staffing strategies, and managing client expectations throughout the project lifecycle can alleviate bottlenecks.

Smaller firms and architecture firms report more challenges with project scheduling than their industry counterparts, likely due to the added complexity of fewer people playing too many roles and managing too many project deliverables and details at once. This can also be attributed to the increased number of subconsultants that small firms, especially architecture firms, are coordinating to ensure successful project delivery.



Projects On or Ahead of Schedule: 7-Year Trend

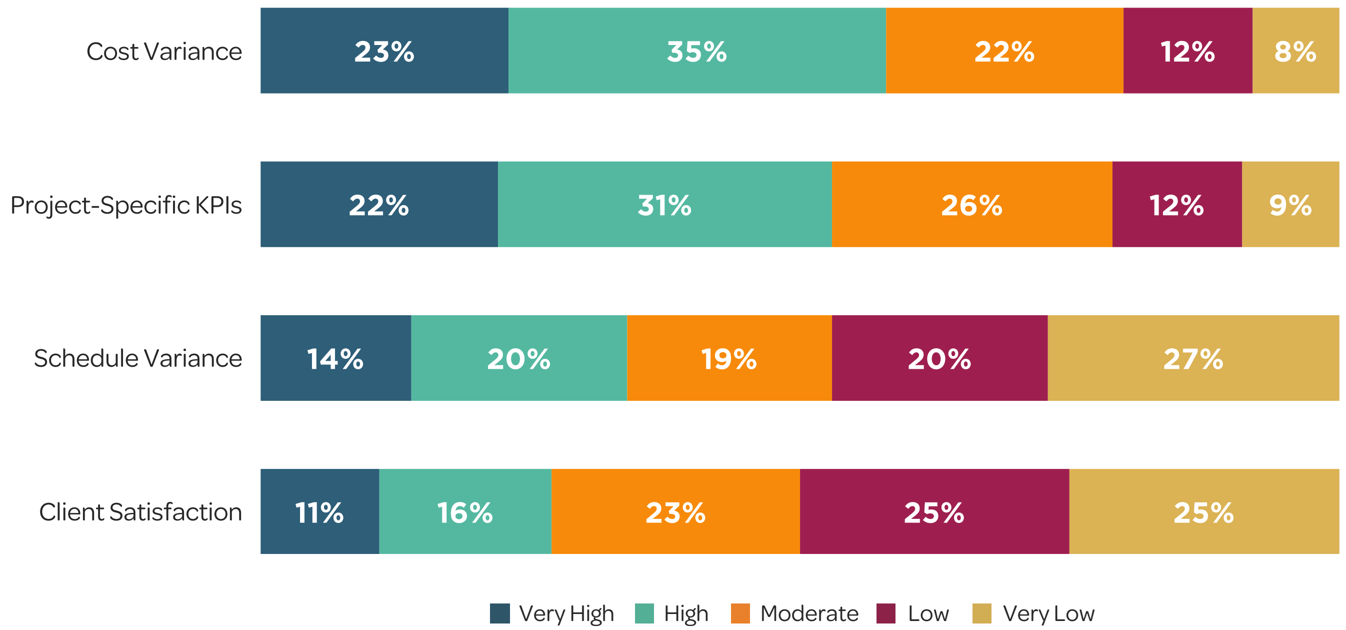


Project Status Visibility

Visibility into cost variance and project-related KPIs remained on par year over year, with just more than half of firms reporting that project managers and principals have very high or high visibility into that data. In contrast, one in three firms reported the same for schedule variance and even fewer for client satisfaction.

Project managers must have visibility into critical project status information to successfully deliver projects. With this information, they can proactively manage staff assignments, scheduling, project financials and overall project quality rather than react to backward-looking reports and playing catch-up. Project quality and client satisfaction will improve as project managers leverage tools specifically designed to augment their roles, freeing up time to focus on innovation, process improvement and client development. This keeps firms resilient over time.

A notable change is that 2023 visibility into client satisfaction increased overall, indicating that more firms are monitoring client feedback and providing insight to project managers so they can use the feedback to deliver better projects and open the door for future projects.

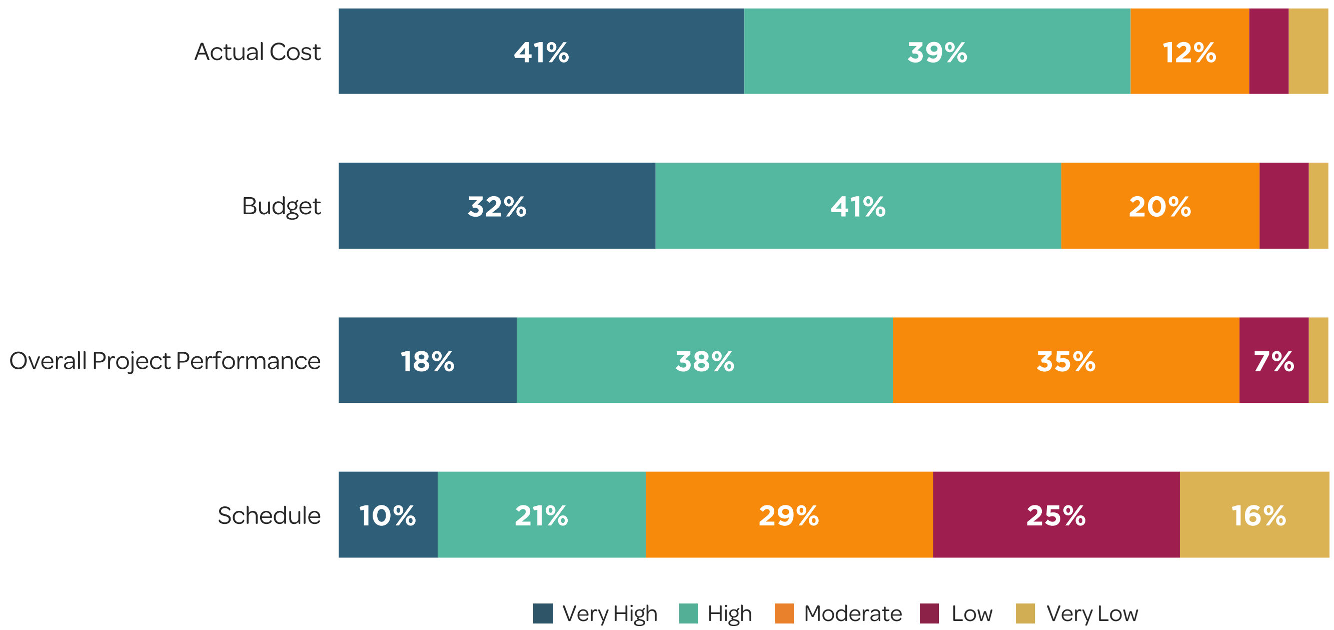


Project Reporting Accuracy

The ability to report on a project accurately, particularly relative to important performance metrics, received mixed reviews. Despite the apparent need for more timely and accurate project data, very high or high project reporting accuracy dropped by 24 percentage points year over year. On a positive note, firms reported increased confidence in scheduling and cost accuracy.

While approximately half of firms are highly or very highly confident in their ability to accurately report on costs and budget, far fewer have the same level of confidence in overall project performance reporting accuracy compared to the prior year. High or very high confidence in scheduling reporting accuracy increased significantly, possibly due to applied technology and processes.

Ensuring trust among project management team members is crucial for project reporting accuracy. It's vital for firms to collaborate with their teams to enhance individuals' assurance levels, enabling them to adhere to deadlines, foster teamwork and yield improved project outcomes. Reporting tools are as critical to the project manager as a brush is to a painter. Businesses that equip their staff with tools and training to scope and manage projects toward successful outcomes will earn loyal clients (or risk losing them to firms that do).



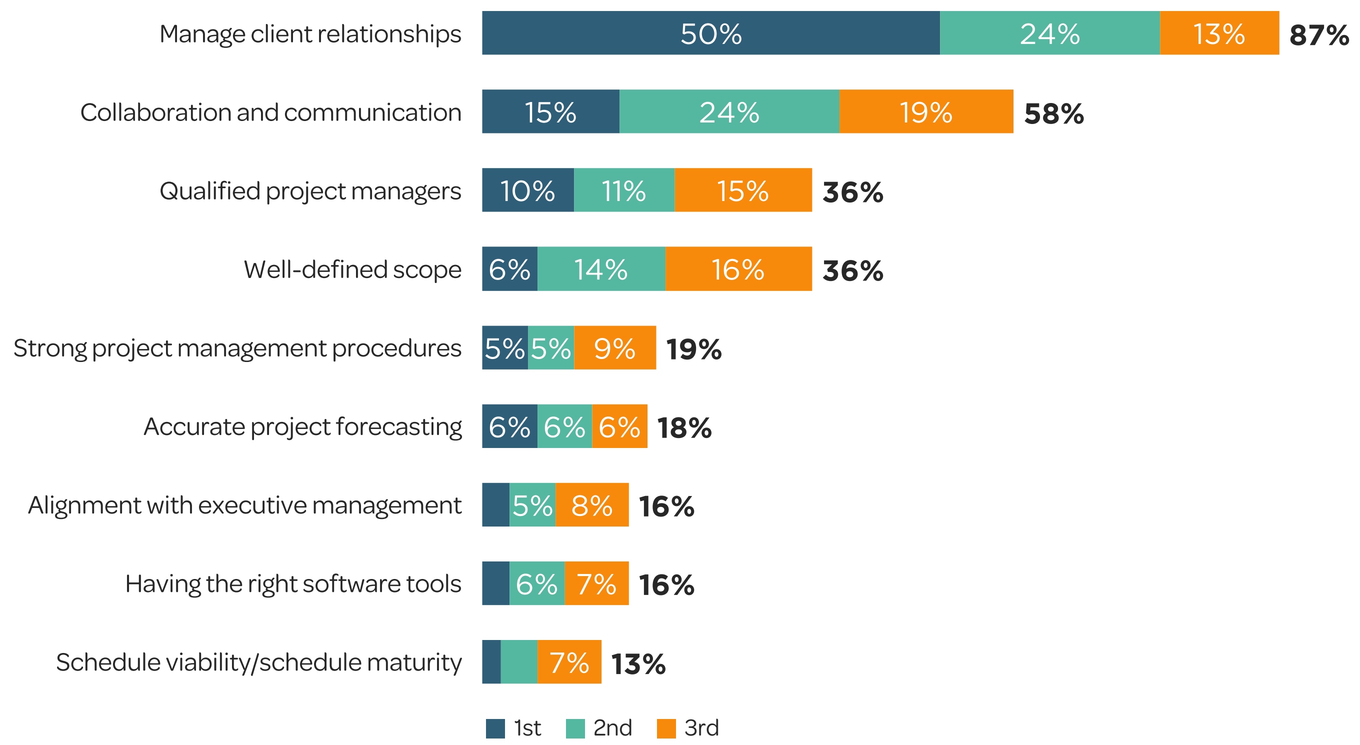
What Firms Do Well in Project Management

This year, managing client relationships is still on top of the firms' ranking as their strongest suit, with a notable increase from 79% to 87%. However, while some firms are confident in their PM capabilities, not nearly enough firms identified PMs as one of their key strengths.

Few firms claim to have the 'right' software tools. While many point to project staffing deficiencies as a challenge, it's likely that, equipped with the correct software tools, firms and their staff will operate at a higher level.

Fewer firms in 2023 identified well-defined scoping as a top strength, which dropped from 41% to 36%. This trend could potentially affect client relations by negatively impacting overall project costs, timelines and expected outcomes.

To continue building on their strengths, firms must dedicate sufficient resources to effective PM skills development and invest in suitable software tools to track key performance indicators (KPIs), monitor project schedules and stay within set budgets.



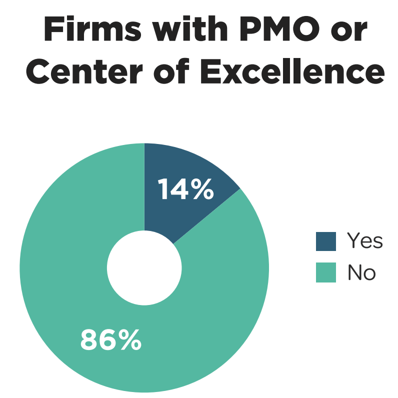
Projects Using Clearly Defined PM Processes

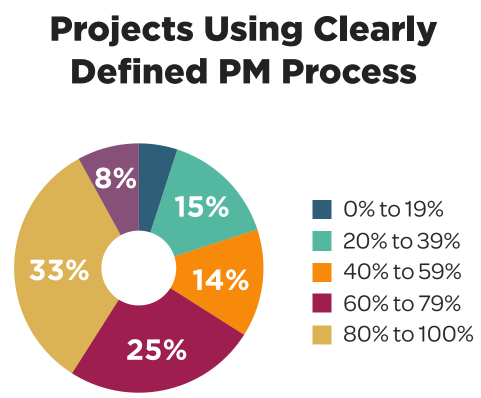
Compared to 2022, there was a notable shift towards fewer projects using clearly defined processes. Half of the firms that used clearly defined PM processes for at least 50% of their projects fell by seven percentage points. Medium-sized and architecture firms demonstrated greater commitment to formal processes than their counterparts.

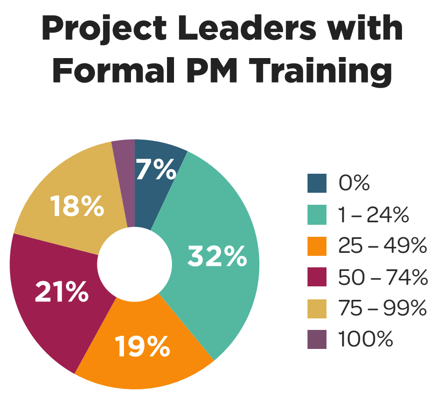
This shift away from clearly defined processes was offset by a slight increase, from 11% to 14%, in the number of firms that have a Project Management Office (PMO) or Center of Excellence. This was primarily driven by gains in large and architecture firms.

Still, the number of project leaders with formal project management training shrunk year over year, with only one in five firms claiming to have formal project management training for 75% or more of their project leads, revealing a widening skill gap.

The growing adoption and promotion of best practices in a PMO and Center of Excellence is crucial to incentivize and encourage project leaders to sharpen their leadership skills and upskill inexperienced PMs more quickly. Firms must invest time and resources now to develop their future leaders and establish best practices. Firms that are well-positioned to adopt and deploy imminent AI-powered solutions will find themselves outperforming firms that still struggle to organize around basic best-practice procedures and standards.







Internal Project Performance Evaluations

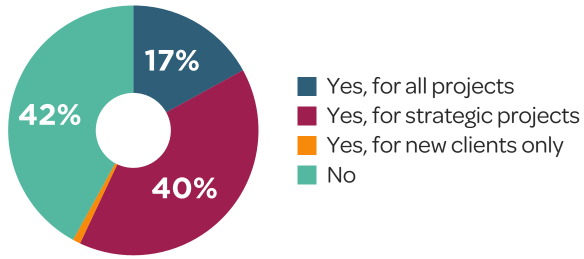
The use of internal project performance evaluations slightly decreased from 60% to 58% in 2023. Firms reported lower project performance evaluations for all projects, while evaluations for only strategic projects remained steady at 40%.

In contrast, large firms exhibited a higher likelihood of conducting internal performance assessments compared to other firms, and also showed considerable growth in adopting evaluations for both general and strategic projects. A small number of firms used evaluations for new client projects only.

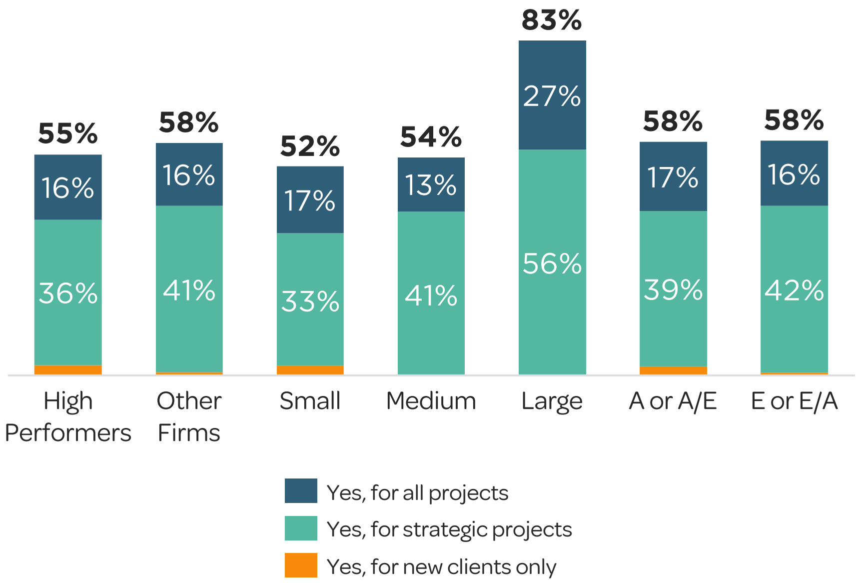
Among firms who do not yet conduct internal project performance evaluations, half are considering doing so. High performers conveyed less interest in conducting them (a 18% point reduction compared to 2022 levels). With the broad range of performance evaluation tools available for businesses of all sizes and budgets, this is one area that firms would benefit from using.

More project team members want feedback more frequently to ensure they are delivering projects as expected. While the focus may often be on client satisfaction, the interal feedback loop cannot be overlooked. Without these important evaluations, firms will miss out on vital opportunities to improve processes, apply learnings, actively engage employees and hone in on operational needs at the different stages of every project.

Internal Project Performance Evaluations



Evaluations by Firm Size/Type



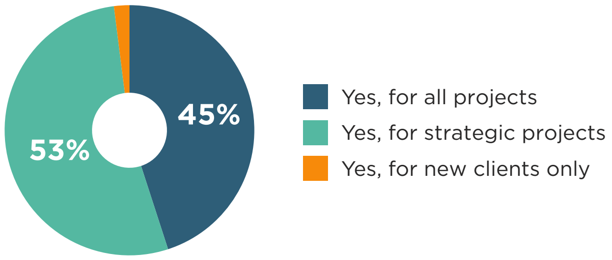
Measuring Client Satisfaction

Client satisfaction shapes a company's reputation and drives loyalty as well as referrals. In 2023, firms that measure client satisfaction expanded their efforts; now 45% measure client satisfaction among all projects, a nine percentage point jump from 2022.

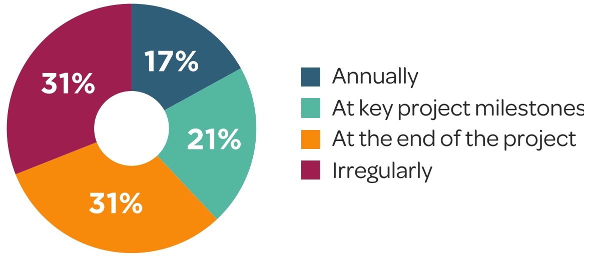
Small firms and architecture firms lead the collective charge towards the broader measurement of client satisfaction across all projects. Medium-sized firms and architecture firms displayed the most growth in this metric, respectively rising by 15 and 14 percentage points year over year.

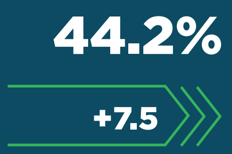
Among firms that measure client satisfaction, more firms are doing so at key project milestones (21%) and at the end of the project (31%). Firms only receiving feedback irregularly, while still prevalent, dropped by nine percentage points to 31%. This practice was championed by smaller firms in 2023, reporting a 16 percentage point jump in the measurement of client satisfaction during key project milestones. Large, medium-sized, and high-performing firms lead the pack in terms of implementing annual assessments, while most firms took steps to reduce the number of irregular and unplanned check-ins.

Measuring Client Satisfaction by Project Type



Frequency of Measuring Client Satisfaction



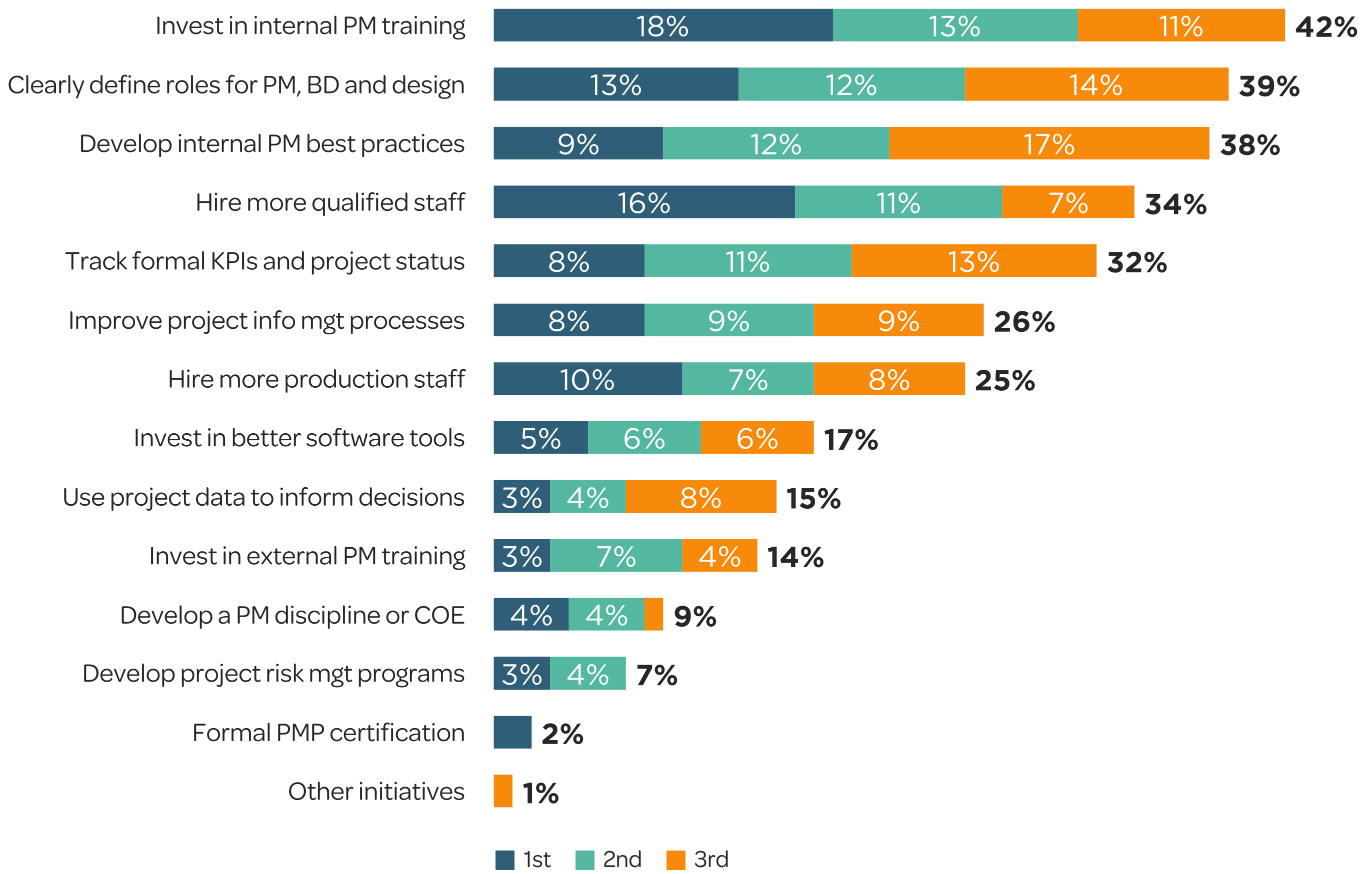


Top Project Management Initiatives

The strategic goal of investing in internal project management training for the next three years continues to rank at the top of the list, emphasizing firms' continued commitment to enhancing operational efficiency and growth through staff development and retention.

To complement training, firms are either improving or establishing clearly defined roles for project management, business development and design, which jumped five percentage points year over year. Developing internal project management best practices, and developing and tracking formal KPIs and project status continue to be top of mind for A&E firms across the board. While firms focus on upskilling current staff, they feel the pressure to hire more qualified staff that can step into leadership roles for current projects, help manage the influx of projects and develop and deploy best practices.

The continued prioritization of investing in internal project management training and technology as priority strategies emphasizes the industry's commitment to enhancing operational efficiency and effectiveness. Project leaders with visibility into scheduling, finance and client feedback KPIs will be better positioned to lift firm performance, resilience, and growth.



03

CLARITY OUTLOOK

PROJECT MANAGEMENT

Firms remain challenged by fundamental project management essentials, including budget and schedule management. While technology offers multiple solutions for firms of all sizes to support project managers, help balance workloads and enhance project KPI visibility, firmwide adoption is fractured for many.

Moving forward, A&E firms must adapt their staffing and retention strategies to meet the escalating demands of projects, emphasizing accuracy and precision. Because hiring experienced project managers can be resource-intensive, firms should focus inward, nurturing their existing top PM talent and upskilling staff members with potential. This involves providing targeted training, allocating sufficient time and equipping PMs with the right tools for proactive project management. Simultaneously, less experienced PMs require mentoring, support and financial literacy skills to handle increased responsibilities.

Creating an in-house community dedicated to documenting and sharing insights among team members is crucial. However, the responsibility for spearheading these initiatives should not rest solely on PMs. Leveraging senior project managers' experiences and legacy knowledge through more formalized channels can offer invaluable training and best practices guidance to newer PMs and safeguard legacy knowledge within businesses. By enhancing KPI tracking, improving reporting accuracy and maintaining a commitment to continuous improvement, PM teams can positively impact their firms' operational and strategic goals.

04

HUMAN CAPITAL MANAGEMENT

With the tide of voluntary turnover waning, firms have settled in with a greater focus on workforce development and planning.

Staff growth decreased moderately and a growing number of firms are reporting fewer open positions, suggesting firms are adjusting to a reduced workforce. While highly skilled labor will always be in demand, the shift to an "employer's market" is beginning to emerge with offer acceptance growing and competitive compensation declining in importance.

80%

of Job offers accepted (+9 ppts)

“On the training and internal operations side, the biggest needs are around staffing, accessing qualified staff but also training so that early career professionals can upskill to take on more increased responsibilities at firms.

—**MICHELE RUSSO**, AIA

ADDRESSING TOP TALENT ACQUISITION CHALLENGES

1 Availability of Good Candidates

While firms are increasingly adjusting to a "new normal" of a reduced workforce, the need for highly skilled talent remains constant. In addition to remaining competitive in compensation and benefits, firms that improve their perception in the marketplace will attract better talent.

2 Ability to Offer Competitive Compensation

Firms are mitigating the need for increased competitive compensation by augmenting offers with greater and more diverse employee benefits. Flexible hours, mentorship programs and even enhanced mental health benefits are on the rise. Candidates are increasingly looking for firms to provide everyday flexibility and support in addition to attractive compensation.

3 Matching Qualified Candidates to Open Positions

With Learning Management Systems and skills repositories on the rise, firms are increasingly leaning into technology to help identify external and internal candidates to open positions. Better tracking of position requirements, onboarding management, and employee development programs aids not only in matching candidates, but retaining them.

HUMAN CAPITAL MANAGEMENT OVERVIEW

In 2023, the A&E industry witnessed a new normalization in staffing, with the pandemic after-effect of high voluntary turnover slowing down. Firms, however, are still challenged by a reduced workforce and are focused on adapting to greater operational and budgetary constraints. The number of open positions decreased, suggesting an internal push towards greater efficiency, with firms maximizing existing resources rather than aggressively expanding their workforce. This shift underscores the industry's increased focus of turning inward, further optimizing, upskilling and engaging human capital amidst evolving market dynamics.

Strategic workforce planning, albeit the most expensive business process, remains a critical focus. Firms with formal career development planning increased across all sized firms and increasingly expanded focus to all employees. Succession planning was also on the rise and growing in its application to all employees. These initiatives reflect a concerted effort within the industry to invest in talent development and retention strategies, thus aligning human capital practices with broader organizational goals. Concurrently, a greater number of firms adopted Learning Management Systems (LMS), recognizing the need and role of a technology solution to track and manage these efforts. These changes highlight firms' increased recognition of the critical importance of nurturing and developing talent and modernizing their learning infrastructure. Leveraging technology to structure and enhance employee development and overall organizational performance will be critical moving forward.

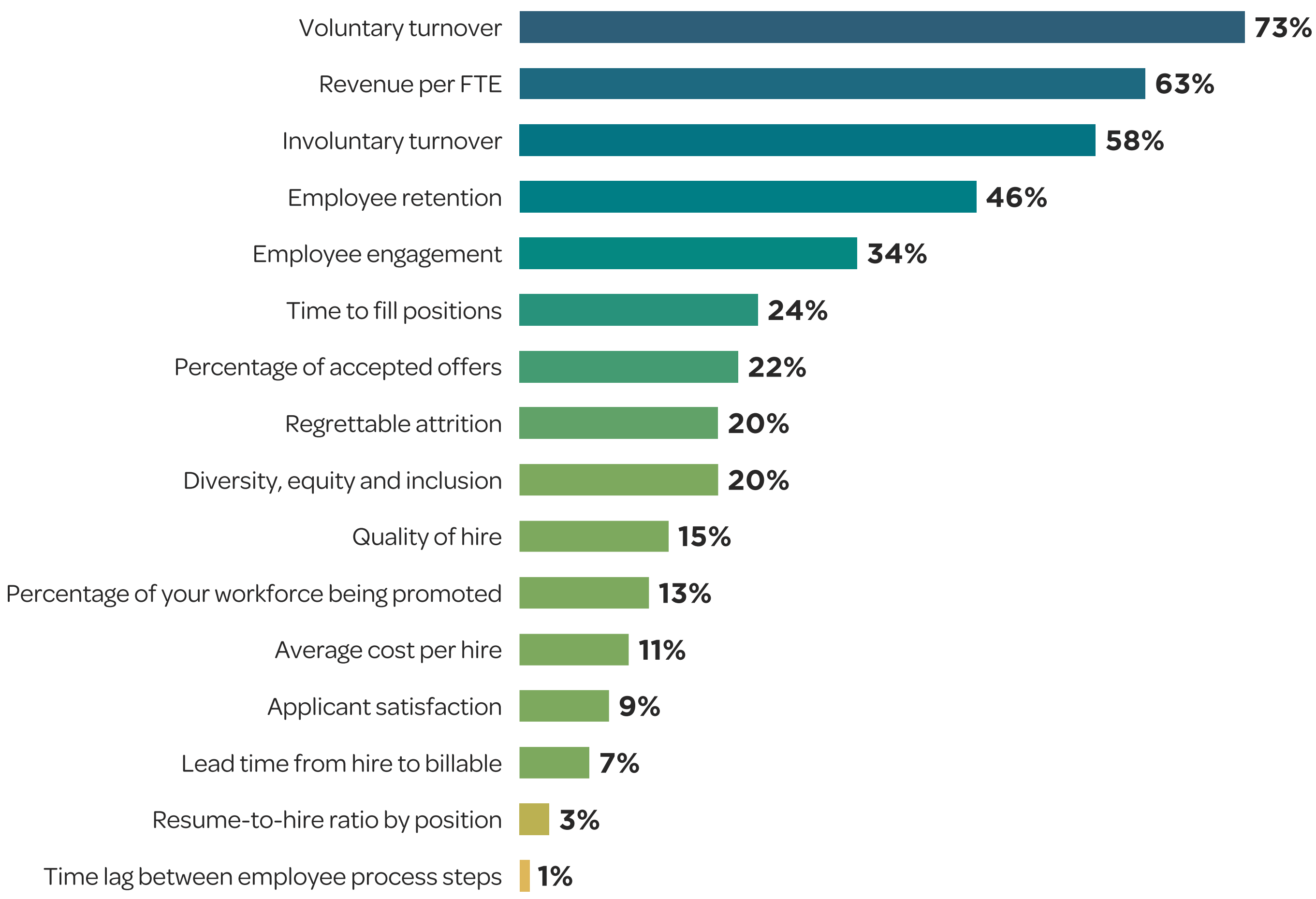
In 2023, firms adjusted to operational constraints, shifting focus from aggressive hiring to operational synergies. Alternative benefits, strategic workforce planning and HR initiatives gained momentum, reflecting the industry's commitment to proactive talent retention and longevity.

Human Capital Management KPIs

In 2023 firms demonstrated a heightened focus on HCM key performance indicators (KPIs) associated with talent acquisition and hiring processes. Firms are increasingly keeping a close eye on monitoring voluntary turnover (+4 points) and the percentage of accepted offers (+4 points).

In contrast, involuntary turnover and revenue per Full Time Employee (FTE) were less closely monitored, down five and six percentage points respectively. Competitive compensation has become less of a talent acquisition challenge, perhaps alleviating some of the pressure of monitoring revenue per FTE.

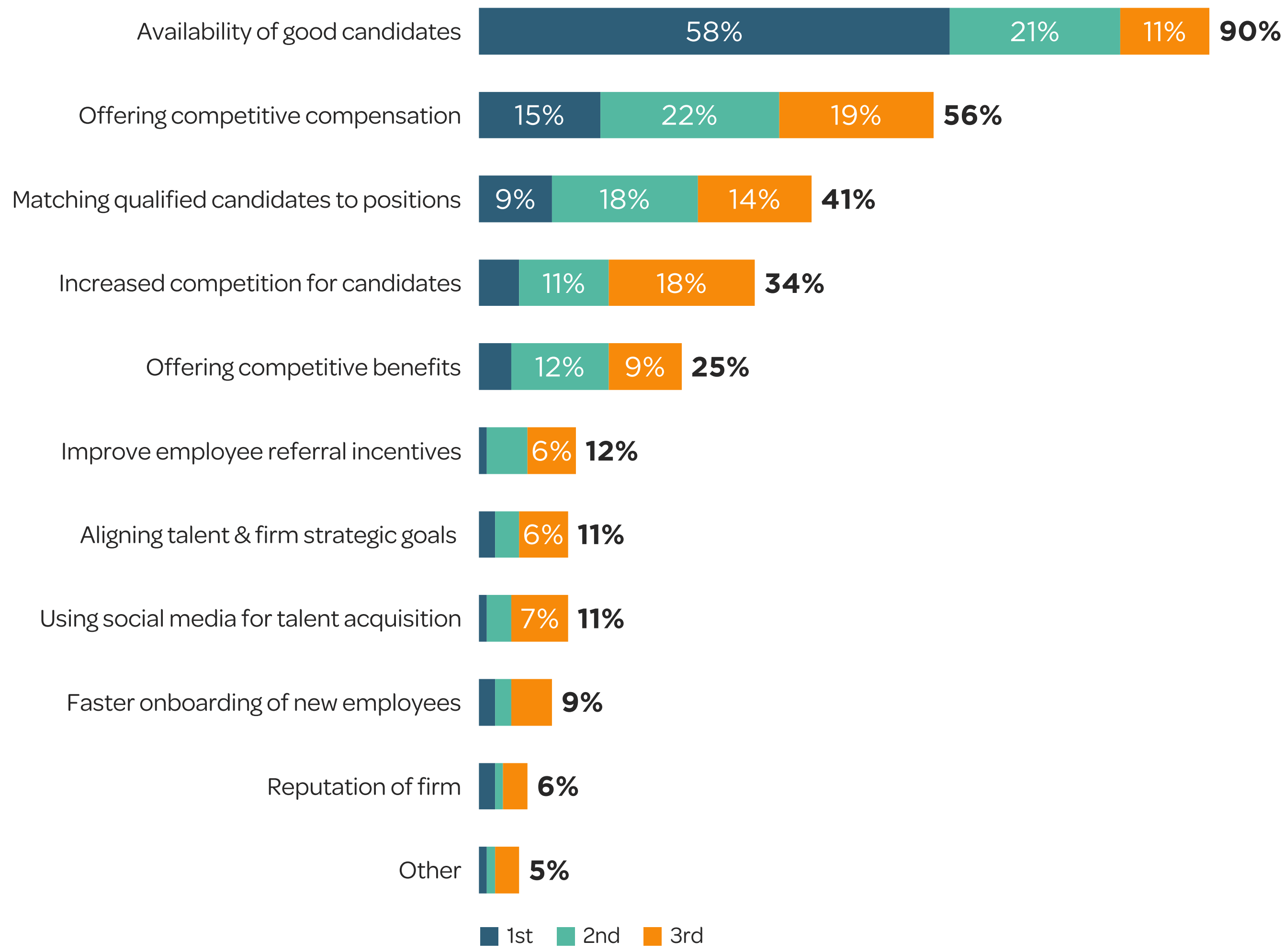
Of concern are declines in tracking employee engagement (-3 points), regrettable attribution (-4 points) and DE&I (-3 points). While employee turnover appears to have stabilized, it is still hovering at 14%. Firms need to stay vigilant in monitoring the entire labor lifecycle from acquisition to retention to turnover, turning insights into informed actions for further employee satisfaction and stabilization of the workforce.



Top Talent Acquisition Challenges

Finding the right candidates, offering competitive compensation and matching available candidates to open roles continue to be top talent acquisition challenges. Firms expect that the availability of good candidates will continue to be a top challenge despite fewer open roles, as the shortage of highly skilled people continues. Using social media for talent acquisition has become less of a challenge, down 10 percentage points, as firms have likely learned how to leverage the medium.

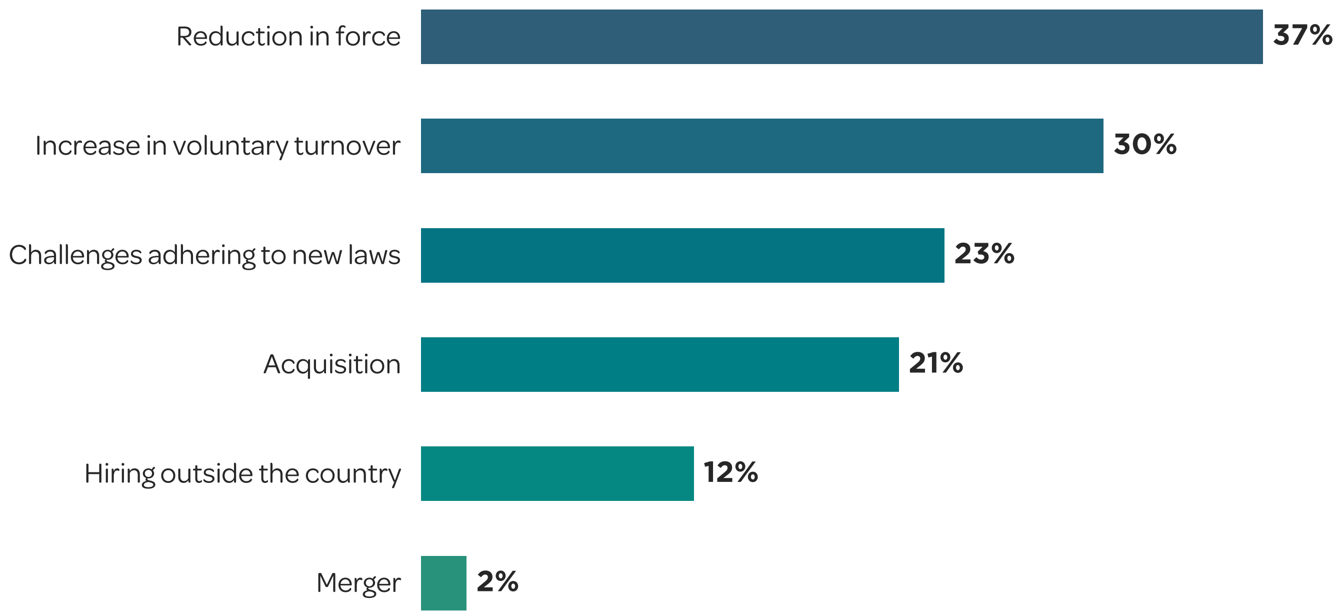
Offering competitive compensation, while still a top challenge, has lessened in importance, down 14 percentage points as the number of firms reporting fewer open positions grows. This decline is offset somewhat with an increase in offering competitive benefits, up two percentage points.



Events Experienced

When asked about events experienced in the past year, A&E firms provided valuable insights. The wave of increased voluntary turnover experienced in the past few years has waned, down significantly year over year (-24 points). The aftereffects of the pandemic in which large numbers of employees switched jobs, careers or retired, is down significantly. What has increased are reductions in force, up 21 percentage points, most likely acquisition-driven, with 21% of firms experiencing one in the last year.

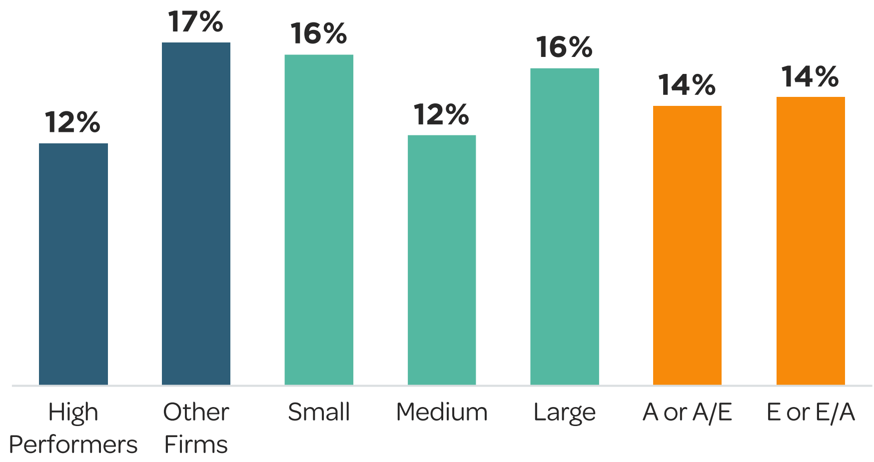
These findings shed light on the evolving landscape within the industry, highlighting shifts in employment dynamics. As firms navigate these changes, adaptability and strategic planning remain paramount for sustaining growth.



Employee Turnover

Overall employee turnover remained relatively high, but stable. Small and large firms experienced the biggest increases, growing by three and two percentage points respectively, each realizing 16% churn. This was offset by medium-sized firm declines (-2 points). High performers reported the lowest employee turnover, dropping to 12%.

Workforce planning and effective project management become increasingly difficult with high turnover. Increased investment and prioritization of retention-building activities, such as career plan development, learning and development tools and increased employee benefits will be critical to offset the expense and disruption of employee turnover.



13.6%

-0.1

Top Quarter

20.6%

Bottom Quarter

9.2%

6.5%

-0.2

Top Quarter

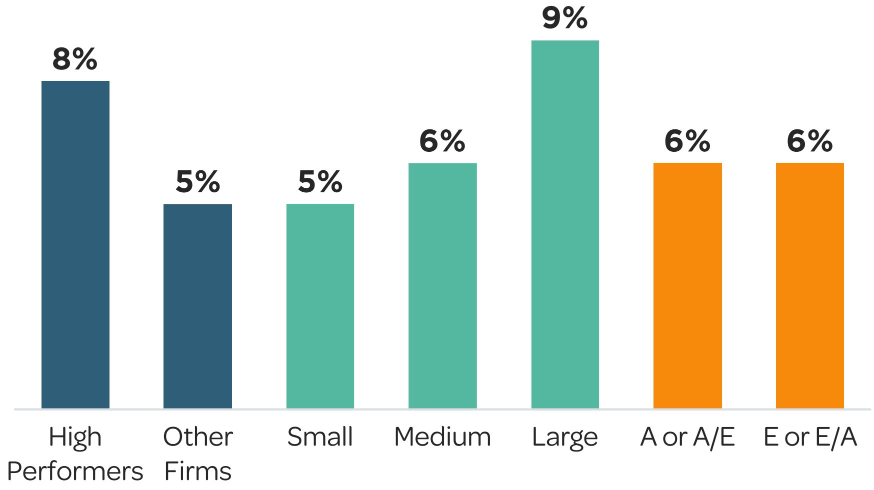
13.3%

Bottom Quarter

-2.3%

Staff Growth or Decline

Staff growth retracted slightly overall, with large and medium-sized firms experiencing slight staff declines, one and two percentage points respectively. Small firm staff growth remained stable year over year. Firms have been able to offset employee churn with continued focus not only on retention, but strategic talent acquisition. Relying less on increasing compensation, firms are shifting focus to new talent acquisition solutions, outsourcing and improving benefits to source and attract qualified talent.



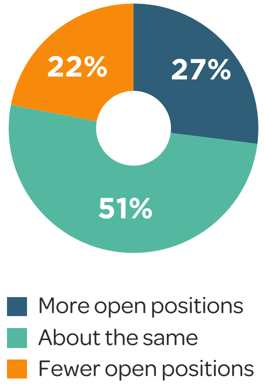
Open Positions and Hiring Lead Times

While the number of firms reporting more open positions declined year over year (going from 39% to 27%), more firms in 2023 claimed that the positions that were open were aimed at supporting organizational growth, signaling a greater focus on more strategic hiring.

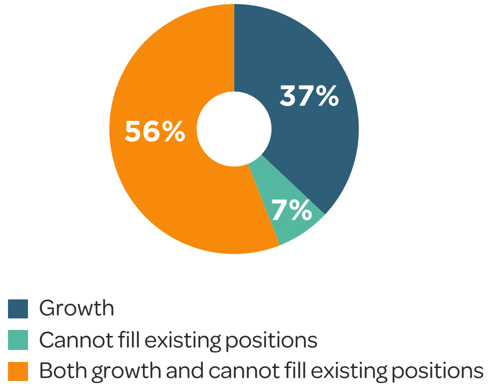
A greater number of firms also reported increased difficulty in filling existing positions than in 2022. Yet, firms became more successful in hiring for the positions they needed to fill with big gains seen in the percentage of offers accepted across all firm sizes, up nine percentage points to 80%. This indicates improvements in recruitment strategies, changes in market conditions, or other factors that made it easier for firms to find suitable candidates for their open positions.

Large firms experienced a notable uptick in the time required to fill a position, particularly notable in the 61-90 day range. Additionally, the average time to fill a position exhibited a slight but understandable increase year over year as firms become more cautious when it comes to making hiring decisions.

Number of Open Positions



Reason for Open Positions

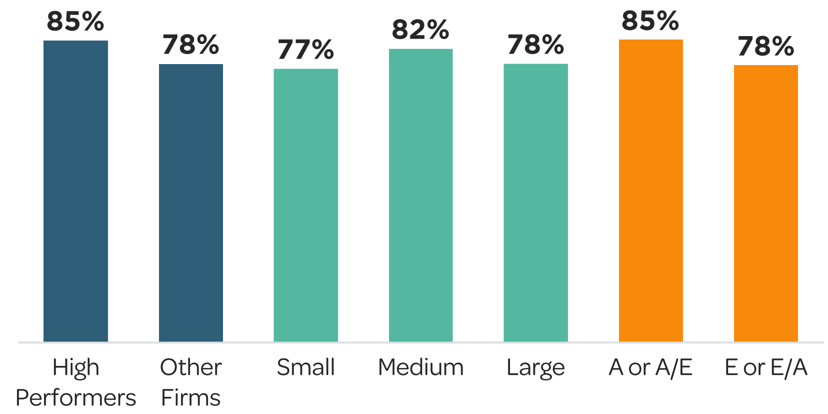


Greater focus on
more strategic hiring

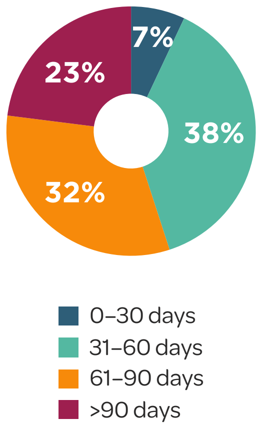
Increased difficulty in
filling existing positions

Easier to find suitable
candidates for open positions

Percentage of Offers Accepted



Average Time to Fill Position

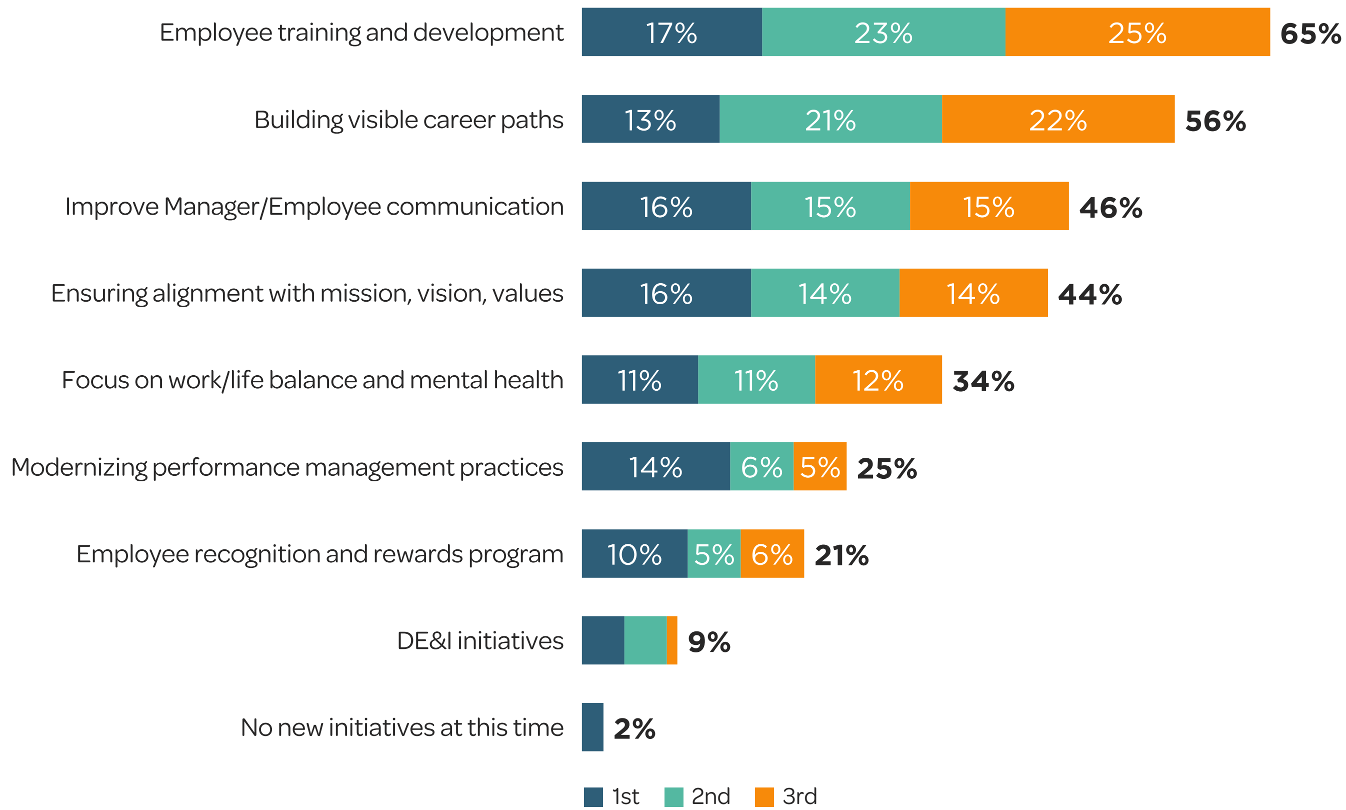


HR Initiatives to Retain and Attract

The top three initiatives to attract talent continue to be employee training and development (65%), building visible career paths (56%) and improving manager/ employee communication (46%).

There was notable growth in initiatives aimed at ensuring alignment with firms' overall mission, vision and values; an increase of six percentage points year over year. In an environment of heavy acquisition activity and double-digit employee churn, this shift is reflective of firms needing to reaffirm and reassure talent on organizational culture, values and goals.

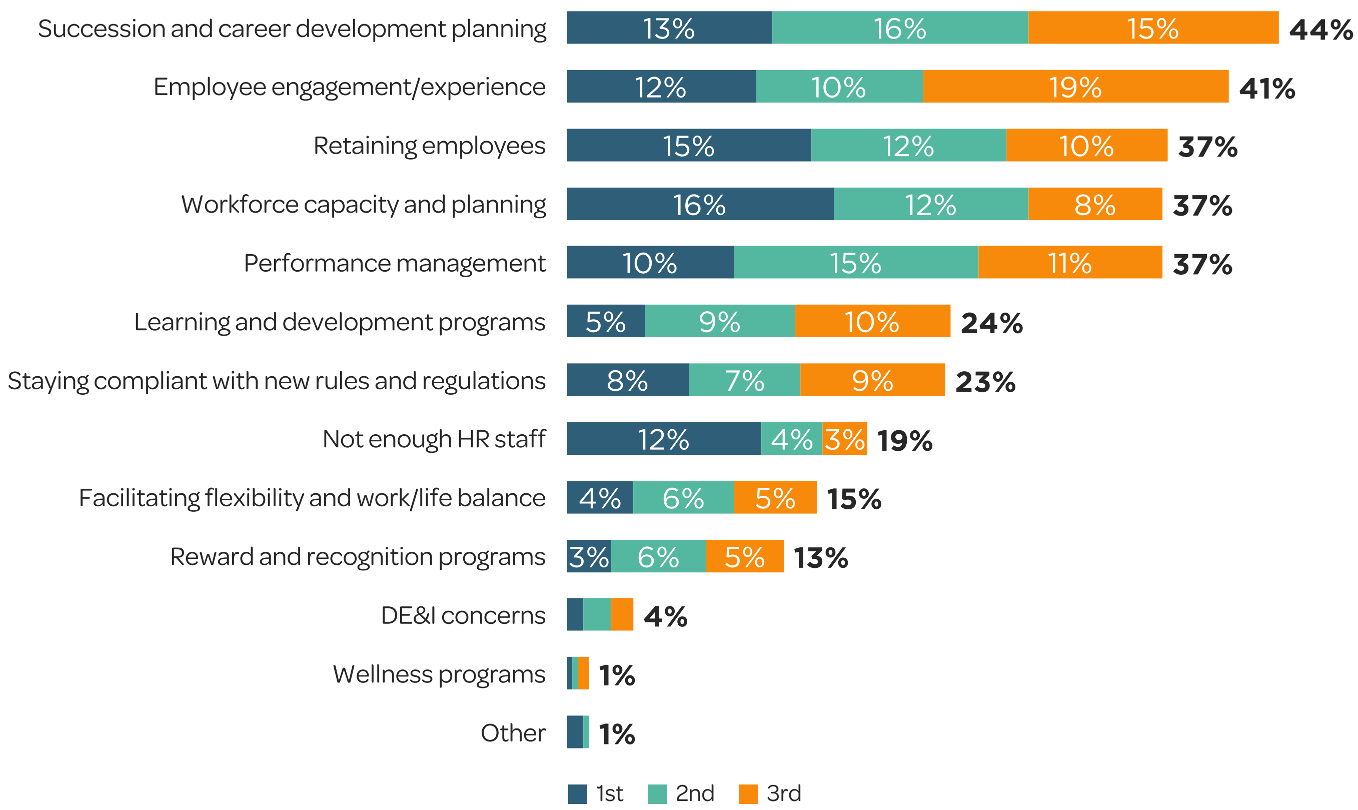
Initiatives focusing on work/life balance dipped four percentage points to 34% and employee recognition efforts and rewards programs also slightly declined. Both should be areas of increased focus versus less as talent continues to be challenged to manage greater workloads.



Top Challenges Managing Human Resources

Succession and career development planning as well as employee engagement continue to be top challenges, essential for upskilling and retaining talent and fostering a sustainable workplace culture. Succession planning becomes crucial as many firms increasingly understand the long-term implications of the imminent retirement of experienced senior staff members and the immediate need to prepare those who will follow in their footsteps. To navigate these challenges effectively, firms must prioritize strategic HR initiatives and invest in comprehensive development strategies to promote talent and sustain organizational longevity.

New options in the survey this year are "staying compliant with new rules and regulations" and "facilitating flexibility and work/life balance." Nearly a quarter of firms reported staying compliant as a top three challenge. While 15% overall consider facilitating flexibility a top challenge, 50% of large firms reported it so. This was less of a concern for small and medium-sized firms.

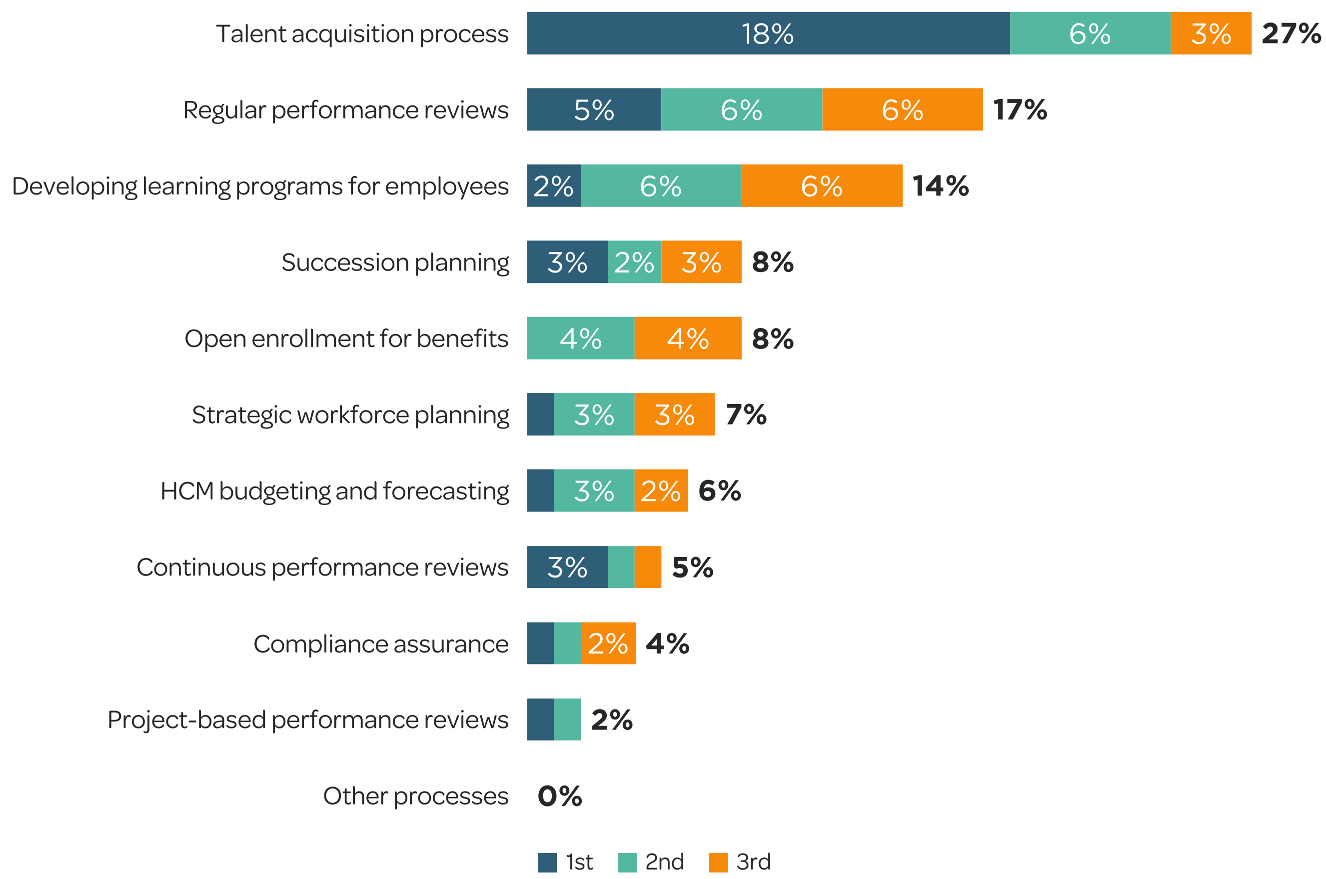


Most Expensive Business Processes to Support

Talent acquisition continues to be the most expensive business process for firms, followed by annual, bi-annual or quarterly performance reviews. The development of learning programs for employees ranks third in terms of expenditure, remaining relatively flat year over year.

Strategic workforce planning experienced a four percentage point uptick year over year, indicating the need for more proactive talent management strategies and focus on evaluating employee performance regularly.

Firms recognize the importance of continuous learning and skill development to maintain competitiveness and foster employee growth. Notably, succession planning takes the fourth spot in terms of expense, showing a slight increase since 2022. This reflects firms' efforts to ensure smooth transitions and long-term organizational sustainability. As the industry evolves, investing in these key processes becomes imperative for firms to attract, retain and develop top talent.



44%

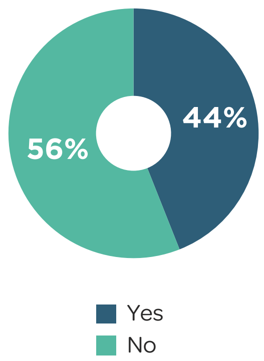
+4

Succession Planning

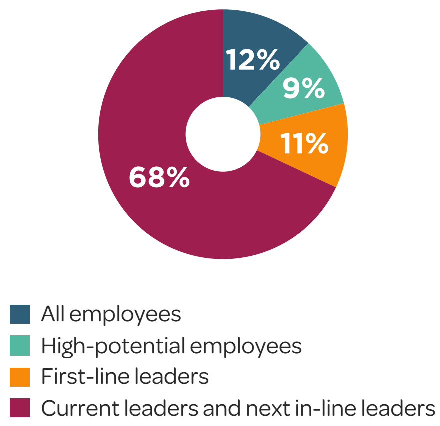
Firms with succession planning grew to 44%, an uptick of four percentage points year over year. While firms continued to favor current leaders and next-in-line leaders (68%), succession plans for all employees rose slightly to 12% driven by small firms up nine percentage points. In contrast, succession planning for more specific, high-potential employees fell, down 10 percentage points to 9%.

Large firms witnessed a broadening of succession planning beyond current leaders and next-in-line leaders, to a greater number of all employees and high-potential employees (14%). This broadening may be in reaction to employee turnover and a recognized need for growth and retention at all levels.

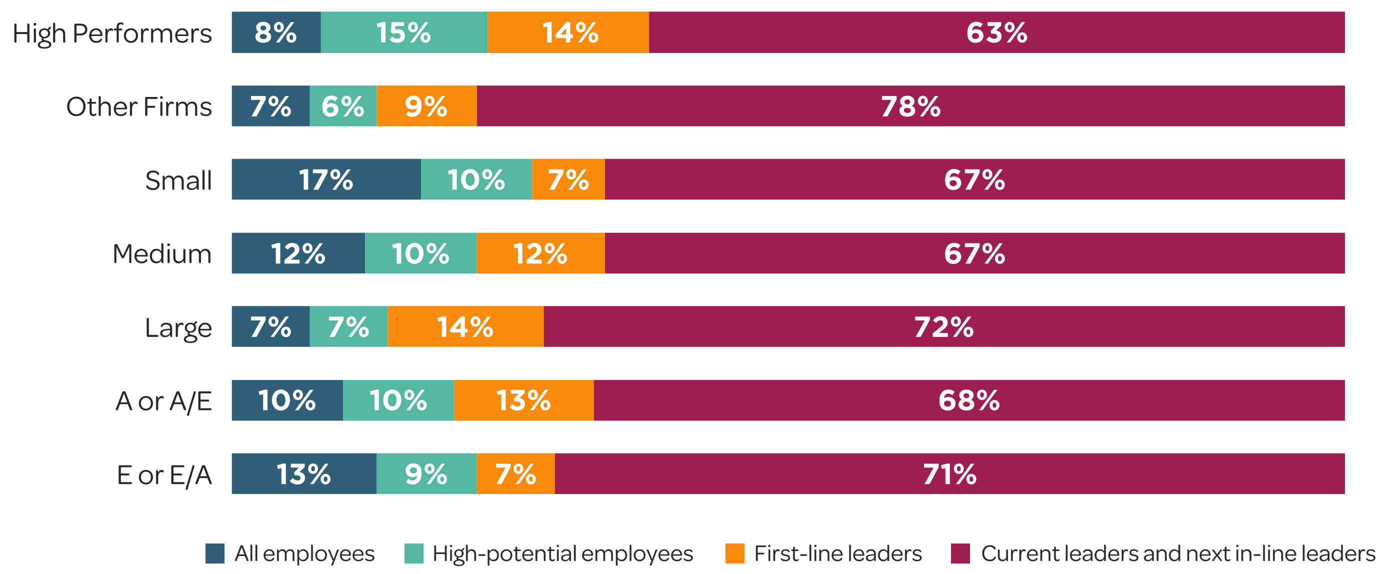
Succession Planning



Who Succession Plan Applies to at Firm



Who Succesion Plan Applies to By Firm Type/Size



39.9%

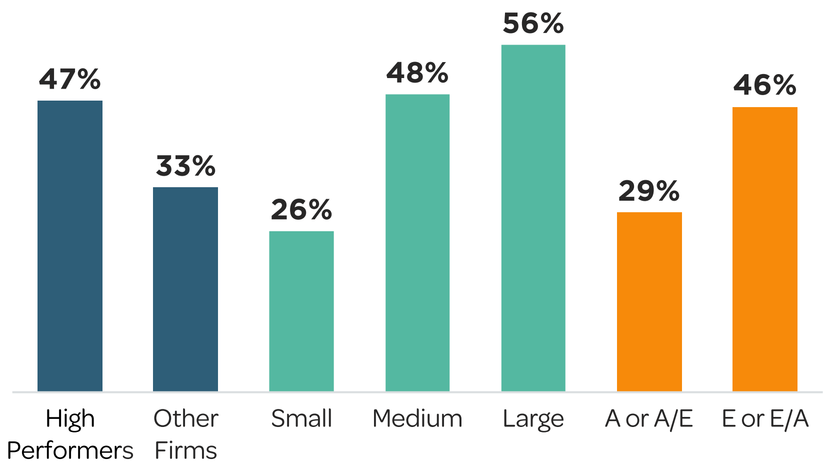
+12.7

Career Development Planning

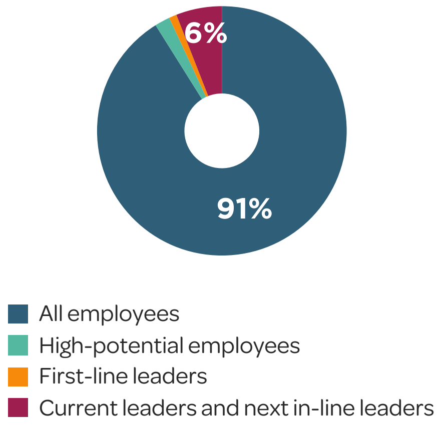
In addition to the rise of succession planning for retention and growth, a growing number of firms are introducing and adopting structured career development programs. Overall, firms with career development plans grew to 40%, a 13 percentage point increase year over year. Medium-sized and large firms demonstrated the most substantial growth in this area with medium-sized firms growing from 37% to 48% and large firms with even more remarkable growth, climbing from 32% to 56%.

Moreover, there is a trend towards extending these career development plans to include all employees within the firms. This inclusive approach witnessed a notable rise in small and large firms, with the most significant increase observed among smaller firms, up 11 percentage points to 94%.

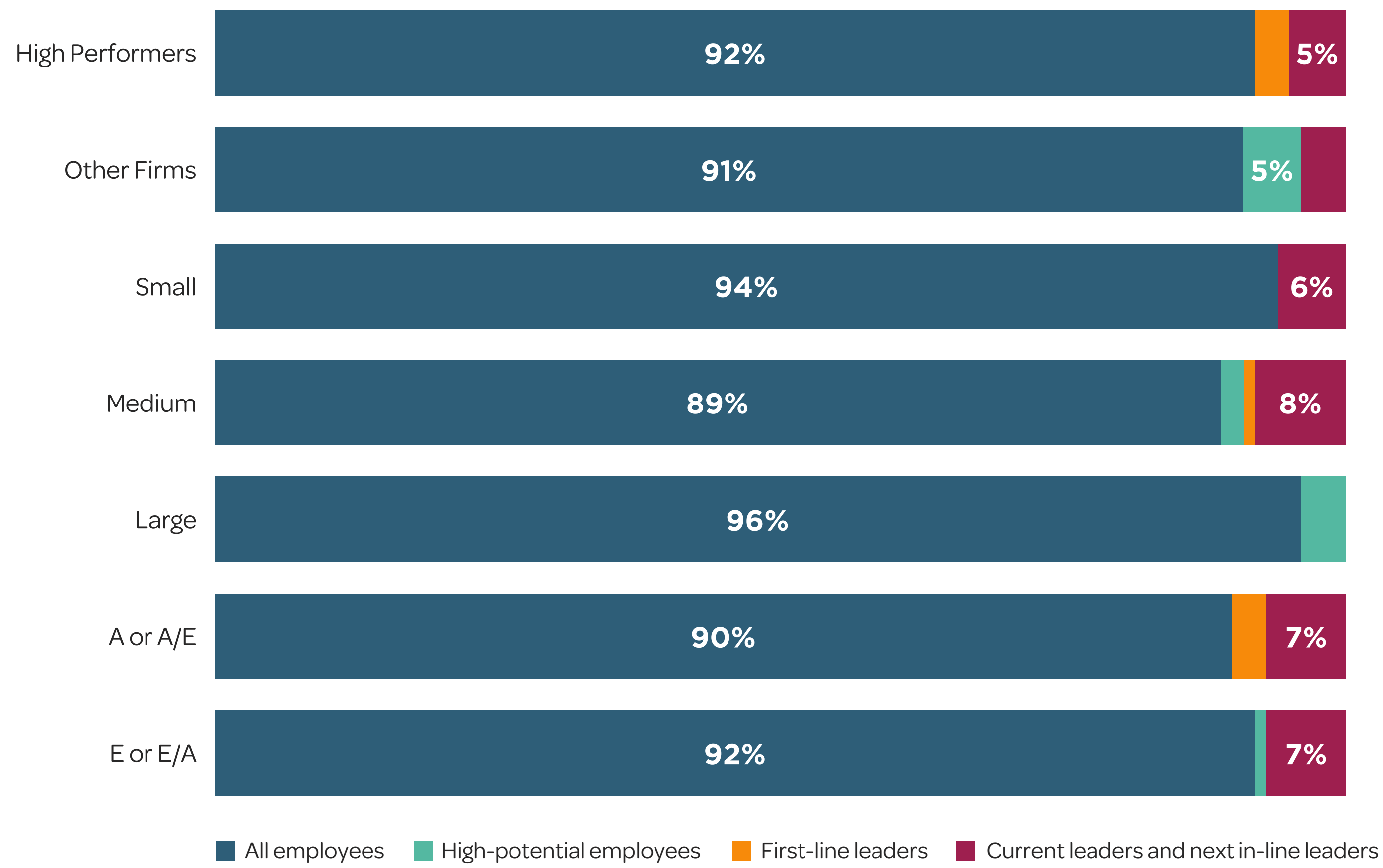
This shift shows a growing recognition among firms of different sizes regarding the importance of cultivating talent and providing pathways for professional growth for all members of their workforce.



Career Development Plan Application



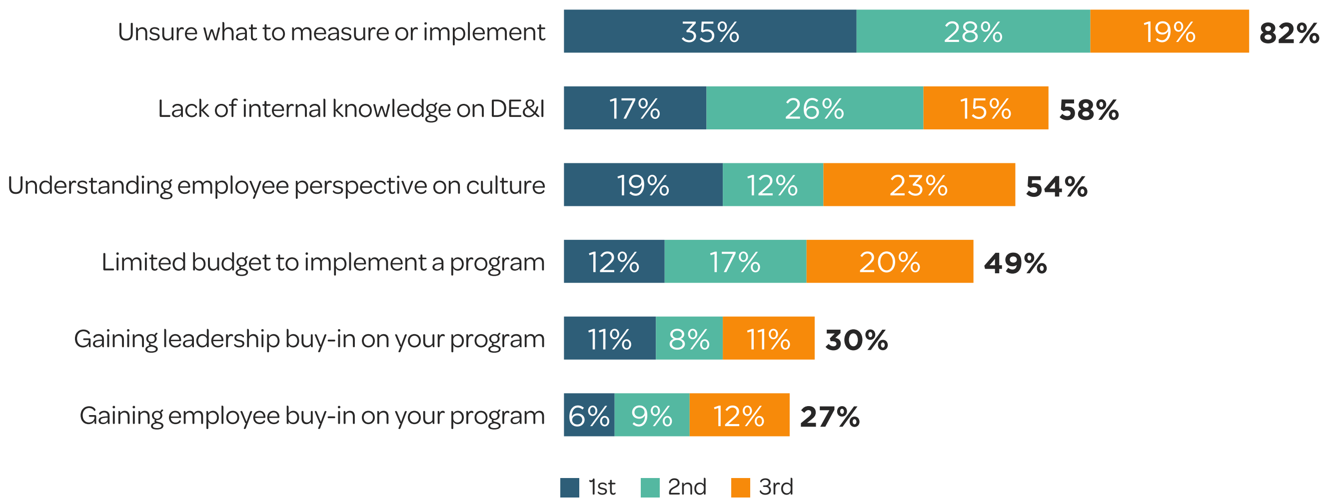
Career Development Plan Application By Firm Type/Size



Top Challenges Building DE&I Programs

Diversity, Equity and Inclusion (DE&I) programs have become much more prevalent in the past few years, but challenges still remain. Unsure of what to measure or implement remains the top challenge at 82%. This lack of clarity, or ability to determine a path forward can stall or slow down DE&I efforts, preventing firms from gaining the benefits of a more inclusive and equitable workforce.

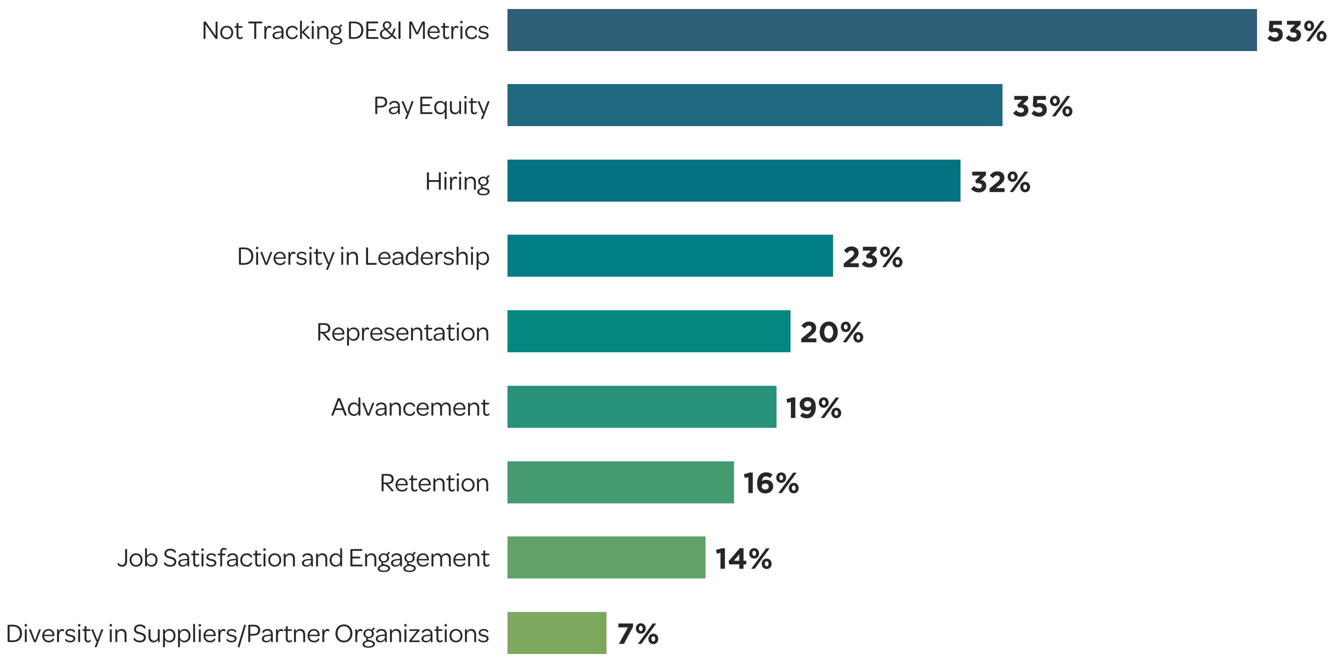
Where we have seen improvements is a decrease in firms reporting a lack of knowledge about DE&I programs (-5 points) and understanding employees' perspectives on firm culture (-2 points). Headwinds still remain as limited budgets and employee buy-in grew as challenges, each up three percentage points.



DE&I Metrics Tracked

In 2023, the tracking of Diversity, Equity and Inclusion (DE&I) metrics revealed that pay equity, hiring and diversity in leadership remained the most monitored aspects year over year, with pay equity seeing the most gains (+4 points). Increases in tracking advancement and job satisfaction/engagement were also reported (+3 points/+4 points).

New to the Study this year was an option for firms to select that they were not tracking DE&I metrics at all. Concerningly, 53% of firms reported this, highlighting a notable gap in awareness or commitment to fostering diversity within the industry. The adage “you can’t manage what you don’t measure” is particularly relevant here. Advancing DE&I must start with measurement and an understanding where a firm should focus and dedicate resources.

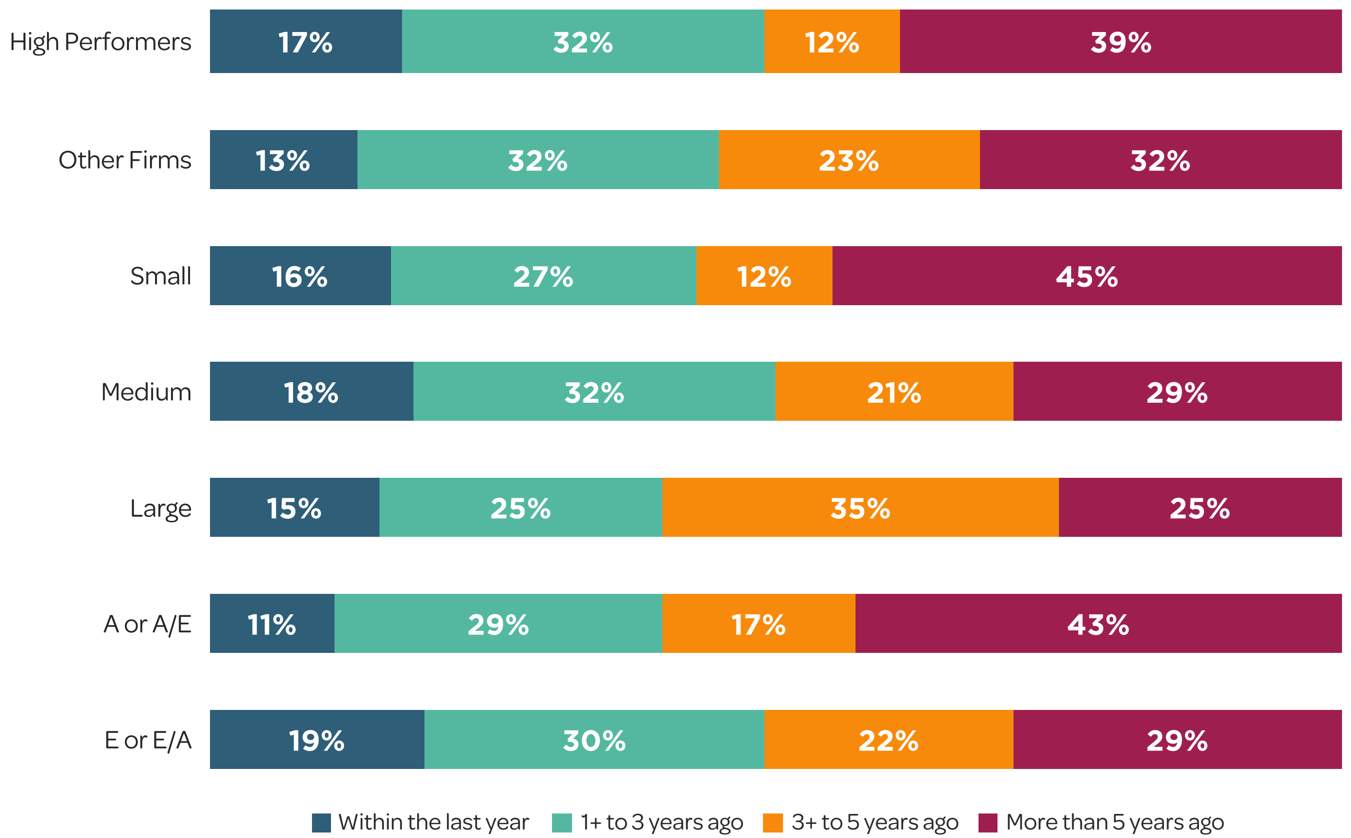


Use of Human Resource Management Solutions

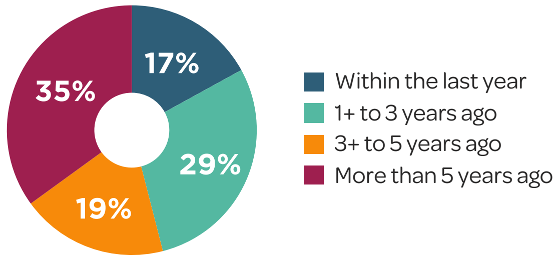
Use of an HR management solution remained stable with nearly 70% of firms utilizing at least one solution. Twenty-nine percent of firms have made a modification within the last one to three years – a growth of six percentage points compared to the previous year.

If we look more closely within the past year, the number of large firms that reported modifying their HR solutions decreased significantly (-16 points) as compared to the prior year. Small firms alternately saw growth in modifications in the past year as well as within the last one to three years (+3 points/+7 points). This is a positive trend as smaller firms appear to be increasing their focus on solutions that help them better refine and leverage their HR strategies to adapt to evolving industry demands and workforce dynamics.

Last HR Solution Modification By Firm Type/Size



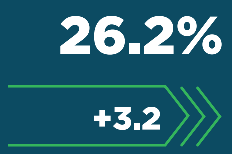
Last HR Solution Modification

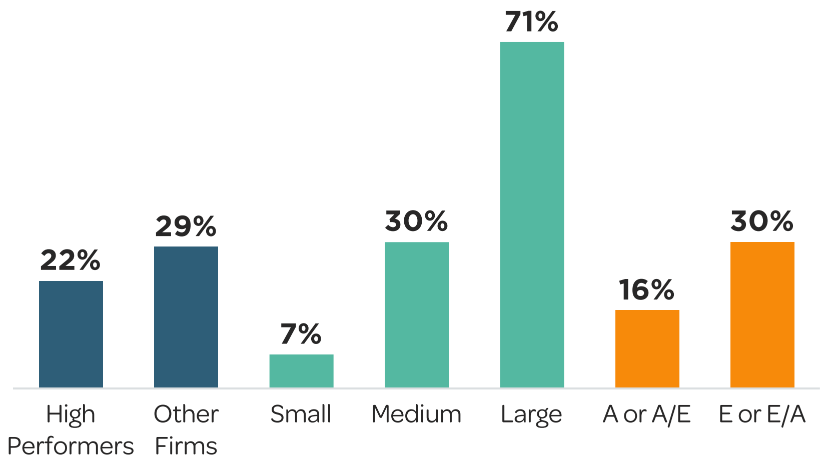


Learning Management Systems

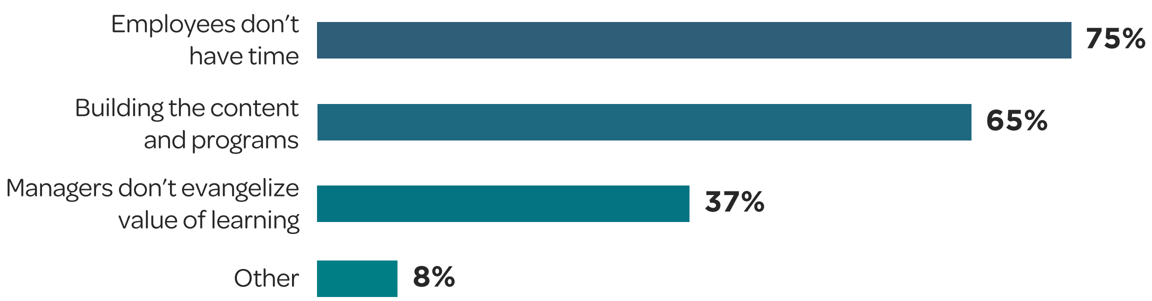
Learning management systems (LMS) continue to grow in adoption as more firms see the value of formal career development plans and professional skills development.

Overall, there was growth in LMS adoption (+3 points) with large firms driving the change, experiencing an eight percentage point upswing. High performers experienced the biggest growth, up 10 percentage points year over year. Key challenges in LMS adoption became notable, as employees lacked time for learning, which saw a nine percentage point uptick. Additionally, managers' failure to evangelize the value of learning increased by six percentage points. Both of these trends are a concern – a short-term focus on day in/day out deliverables, while at times necessary, must be balanced with dedicated, manager-endorsed skill development, critical for individual and firm growth.



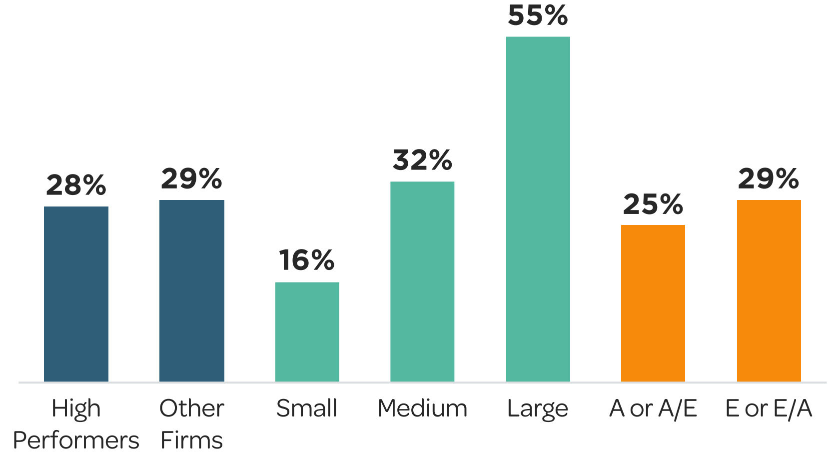


Top Challenges with Adoption of LMS

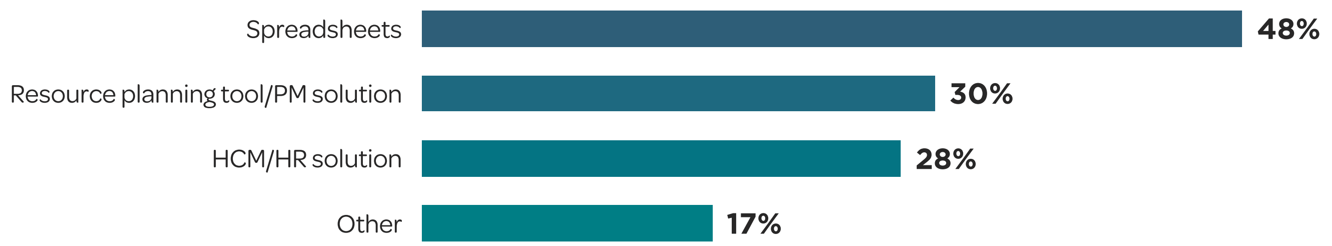


Large firms also had significant gains in utilizing skills repositories, growing 16 percentage points year over year. Correspondingly, use of HCM/HR solutions grew (+9 points). In contrast, small and medium-sized firms remained relatively flat. Spreadsheets are still in high use to manage HR processes but declining (-6 points).

Firms with a Skills Repository



Location of Skills Repository

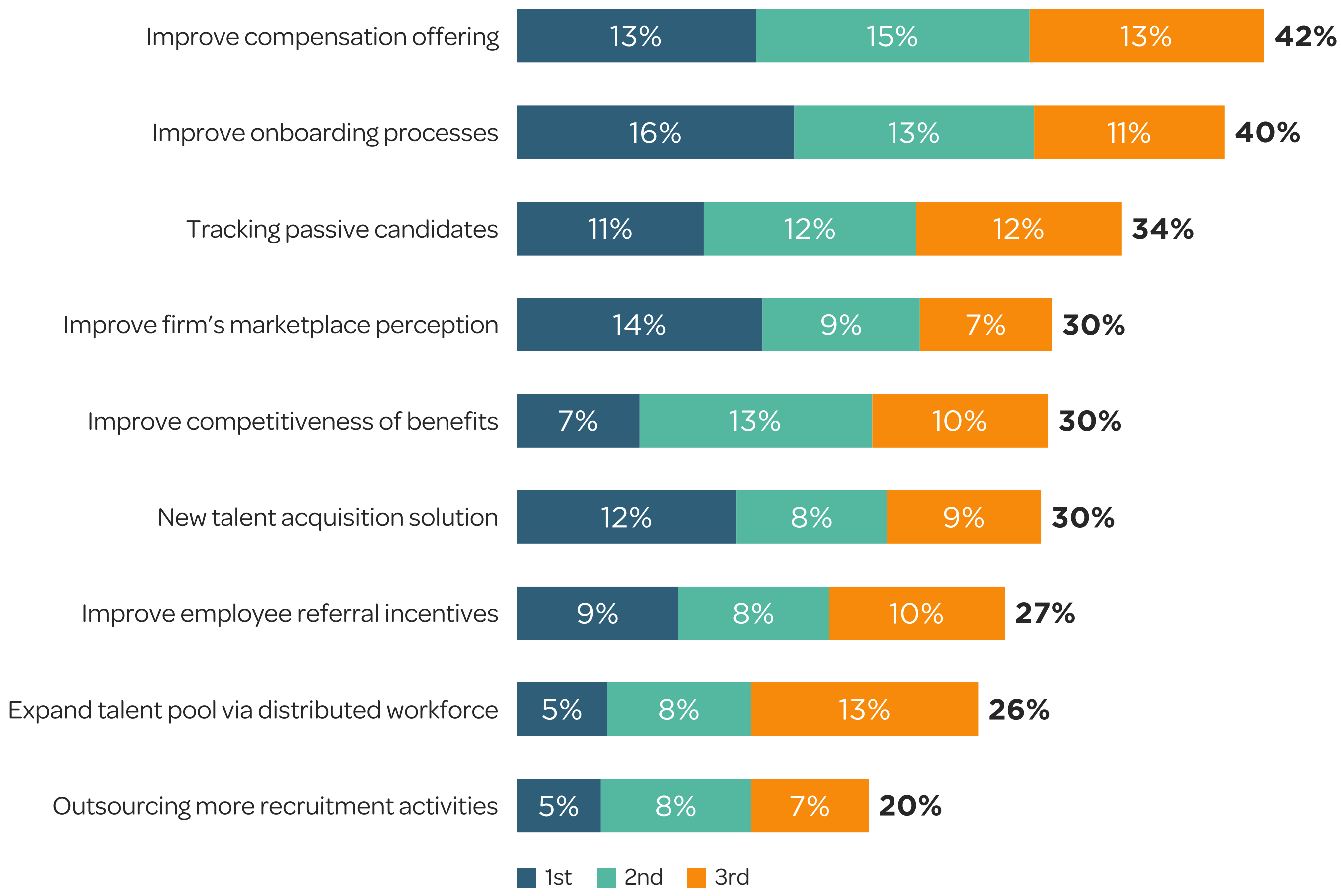


Top Talent Acquisition Initiatives

The search for qualified talent remains evergreen, but with the slowdown of voluntary turnover, firms are leaning into a broader array of initiatives to acquire talent versus relying predominantly on competitive compensation. In fact, increasing compensation offerings, while still the top talent acquisition initiative, dropped in importance by 11 percentage points.

Interestingly, more firms are turning towards providing better benefits to attract talent. More than a quarter of firms now utilize competitive benefits, up four percentage points year over year.

Utilizing new tools and channels for outreach is on the upswing as well. Acquiring a new talent acquisition solution and outsourcing more recruitment activities each grew as initiatives in 2023 (+4 points/+5 points, respectively). Firms are also increasingly turning towards their own employees, utilizing or growing referrals for talent acquisition (+2 points). This more holistic utilization of recruitment practices, considering not only financial incentives but also new innovative solutions for talent acquisition, is better suited to meet the demands of an ever-changing workforce.

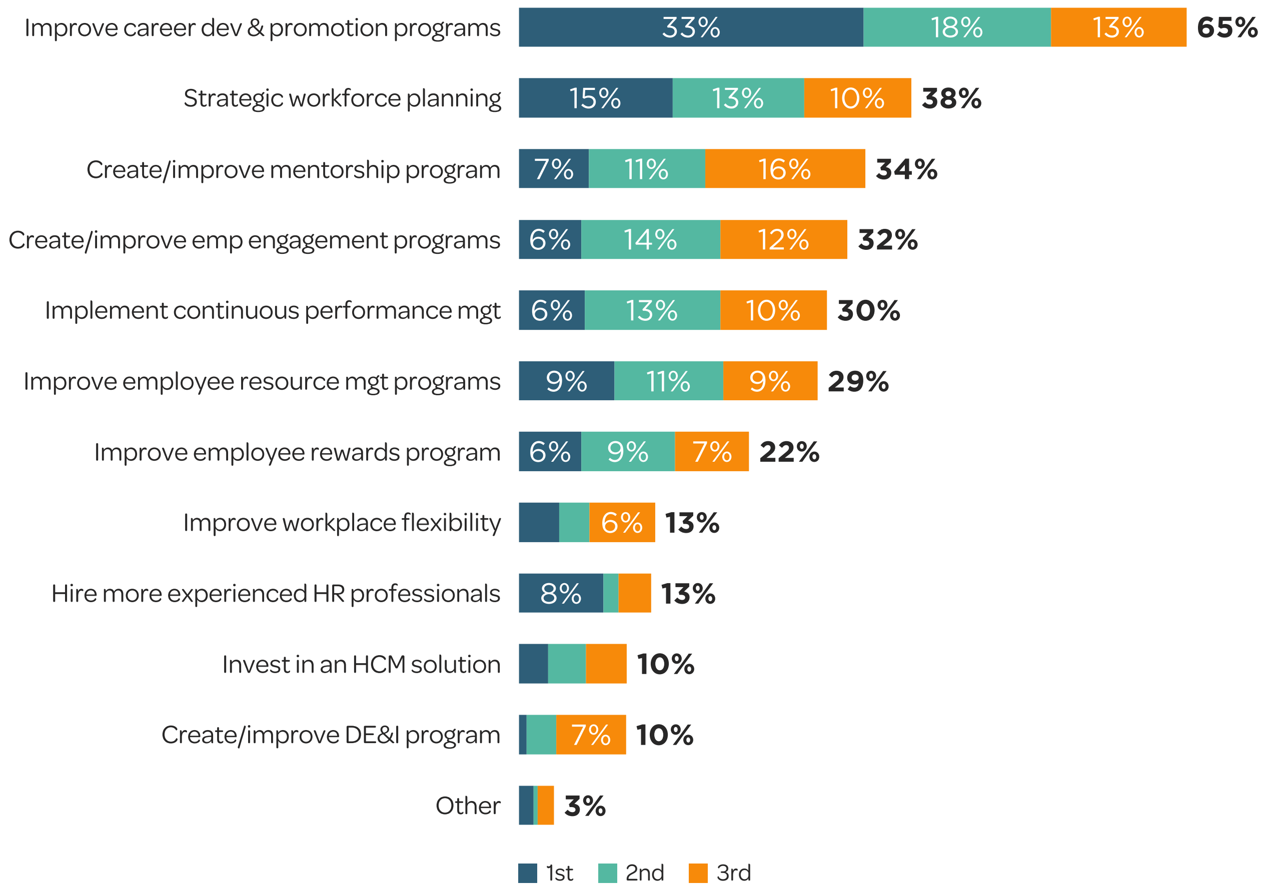


Top HR Initiatives for Managing Talent

While the top three HR initiatives have remained the same year over year, they have grown in strength as firms turn a greater amount of attention inward, supporting and developing talent.

Already the top initiative for managing talent, enhancing career development and promotion programs grew even more in importance to 65%. Following closely, strategic workforce planning experienced the largest upswing, up five percentage points year over year. With staff utilization rates rising, firms are becoming more intentional on workforce planning to minimize burnout. In that same vein, improving employee resource management programs grew five percentage points. This shift has been at the expense of improving employee engagement and rewards programs (each down 7 points respectively) .

As firms aim to retain and develop talent, investment in initiatives such as career development, strategic workforce planning and mentorship programs are gaining traction.



04

CLARITY OUTLOOK

HUMAN CAPITAL MANAGEMENT

The disruptions of high voluntary turnover may have waned, but firms are still operating with a smaller workforce, driving a greater focus on workforce planning and upskilling to bridge knowledge gaps.

Firms in 2023 experienced a new equilibrium in the market where inflationary pressures have eased and voluntary turnover has begun to stabilize. Still managing a moderate decline in staff growth, firms continue to adapt to operating with smaller headcount. The number of firms reporting more open positions declined, contrasting with a rise in those reporting fewer openings. Offering competitive compensation remains a crucial acquisition challenge, albeit diminishing in significance. Firms are increasingly turning towards enhanced benefits, such as mentorship programs, flexible hours and even mental health benefits, to attract and retain talent.

Strategic workforce planning continues to be a focal point as well as proactive talent development. Career plan development, succession planning and better learning management are all on the rise.

As a whole, firms will need to carefully walk the line between keeping costs controlled and employee retention, making sure not to overburden existing staff with additional responsibilities that could be addressed with investments in technological and operational infrastructure, additional staff or external third-party service providers.

05

FINANCIAL MANAGEMENT

While operating profit on net revenue held steady, firms faced challenges controlling costs and growing returns on both assets and equity.

In 2023, costs rose alongside revenue leaving operating profit (EBITDA) largely unchanged versus a year ago. Notably, escalating labor costs, encompassing both indirect expenses and wages, applied pressure on firms' financial performance and highlighted the complexities firms face in managing financial performance in the dynamic architecture & engineering sector.

Operating Profit on Net Revenue rose to

18.7%

"Finance leaders face scope creep, pricing challenges, and an incomplete understanding of the services they provide. They can work better with their front-line architects on better client education and engagement."

—MICHELE RUSSO, AIA

Labor cost increases applied pressure to Net Labor and Total Payroll Multipliers in 2023 as Direct Labor utilization levels increased.

ADDRESSING TOP FINANCIAL CHALLENGES

1 Finding and Retaining Qualified Staff

Despite a dip in importance in 2023 from 65% to 59%, staff recruitment and retention remained a top concern among A&E firms. To ensure long-term success, firms must continue to prioritize talent development, offer competitive compensation and support their experts with impactful operational investments.

2 Increasing Profitability

With its importance increasing from 45% to 54% this year, increasing profitability was a focus as firms faced labor cost increases, which were offset largely by a boost in utilization as costs shifted from overhead to direct labor. It continues to be important for firms to recognize that tradeoffs like these can result in longer-term effects, like increases in voluntary turnover driven by employee burnout.

3 Succession Planning and Ownership Transition

In 2023, firms indicated a greater degree of focus on succession planning and ownership transition, as leadership changes were more top-of-mind relative to a year ago.

FINANCIAL MANAGEMENT OVERVIEW

In 2023, firms encountered several headwinds that affected their financial performance. Despite revenue growth relative to 2022 performance, firms experienced rising costs as well. The resulting equilibrium had the effect of flattening operating profits on a year over year basis.

A notable challenge firms faced was continued increases in labor costs, which exerted pressure on profit margins and highlighted the delicate balance between maintaining competitive compensation for skilled contributors and preserving project profitability. Businesses compensated for these rising costs by driving labor efficiency with increased utilization across strong project portfolios and contining to build healthy backlogs.

In particular, firms reported a discernible shift in their investment priorities, as they pivoted away from capital-intensive fixed asset investments towards recurring, technology-driven operational expenses. This strategic realignment reflected a broader industry trend towards digitalization and automation, aimed at lowering overhead, enhancing productivity and future-proofing operations.

A&E firms demonstrated considerable resilience despite the challenges they faced in 2023. Reported utilization increases stem from robust delivery slates backed up by project backlogs that feed bullish sentiments demonstrated in forward-looking net revenue growth forecasts. This adaptability underscored their capacity to navigate through the evolving economic landscape while maintaining competitiveness in the market.

Observed changes in financial ratios further highlighted the shifting dynamics for firms in 2023. Declines in both current and debt-to-equity ratios as well as an observed decrease in net fixed assets per employee serve as further evidence that firms are evaluating their capital allocation and debt management approaches and considering a wider adoption of on-demand technology solutions to support project deliverables.

In essence, 2023 financial results serve as a testament to the agility and strategic acumen of A&E firms, which navigated a business landscape fraught with challenges by leveraging innovation and adaptability to sustain growth and competitiveness.

In 2023, firms effectively balanced rising costs with revenue growth, demonstrating operational efficiency while delivering operating profit levels that were largely on par with year-ago results.

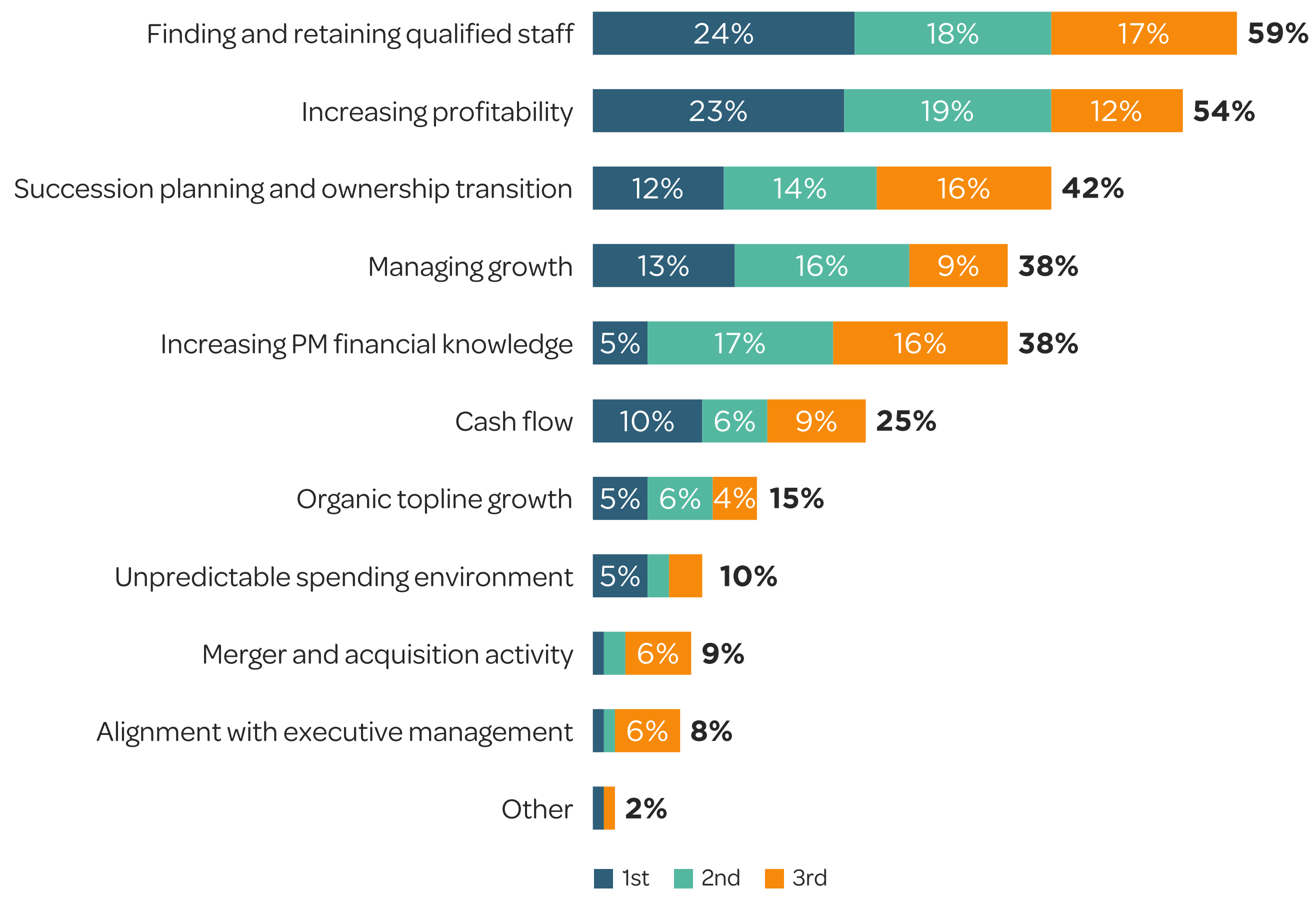
Top Financial Challenges

In 2023, respondents indicated the ongoing struggle to find and retain qualified staff, boost profitability and secure effective succession planning and ownership transition as the top challenges for their firms. The list was largely unchanged versus year-ago results, though managing growth dipped slightly from 46% last year to 38%, which served to drop it from this year's Top 3 to the fourth most-important financial challenge of the year.

Last year, a clear top financial challenge was finding and retaining qualified staff, with a third of responses indicating it as their number one challenge. While still the top challenge for many firms in 2023, the number of responses ranking it first dipped to 24%, accounting for most of the overall drop from 65% to 59%.

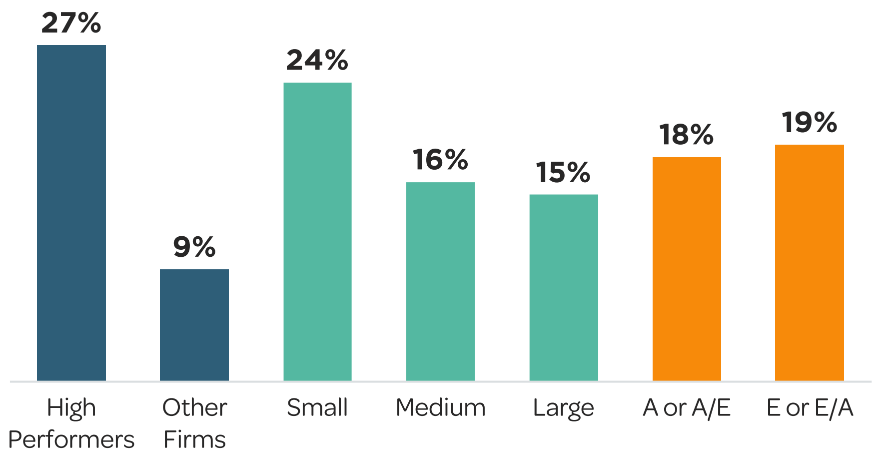
Conversely, increasing profitability rose nine percentage points overall, to 54% in 2023 as more respondents indicated it as their top or second-ranked challenge for the year.

Like managing growth, increasing project leaders' financial knowledge also dipped, as fewer indicated it as one of their top three financial challenges.



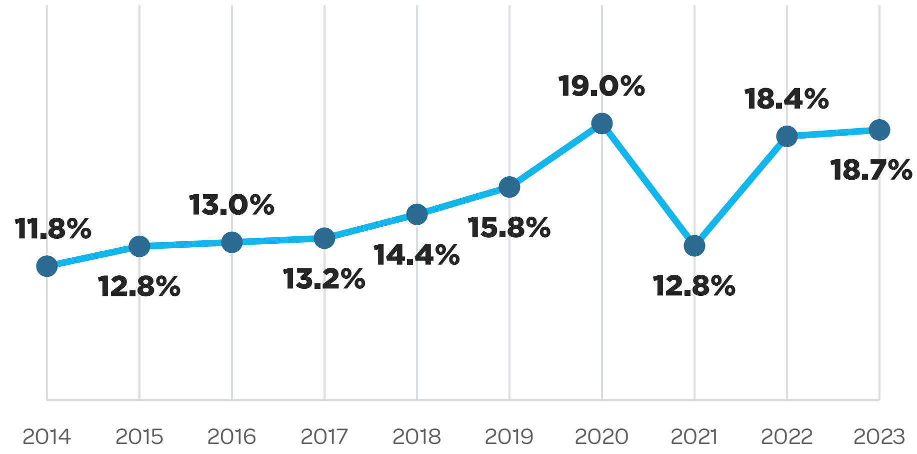
Operating Profit on Net Revenue

In 2023 both small and large A&E firms experienced a noteworthy boost in operating profit on net revenue. Small firms showcased a six percentage point improvement, while large firms saw an even more substantial increase (+7 points) compared to the previous year. However, observed improvements weren't exclusive to a particular industry segment. High performers and other firms delivered very similar results relative to their previous year's performances. As well, observed outcomes were largely consistent across A&E firms of different sizes, suggesting a shared momentum across verticals.



10-Year Trend

Over the past decade, A&E firms have shown resilience and adaptability in managing cost increases and capitalizing on project opportunities to boost operating profits. Despite market fluctuations, broader M&A consolidation trends have improved cost management and lead to consistent operating margin gains. These strategies have underscored A&E firms' enduring strength in maintaining healthy operating margins even in challenging circumstances.



18.7%

+0.3

Top Quarter

38.8%

Bottom Quarter

7.2%

Divide pre-tax, pre-distribution profit by net revenue (total revenue minus consultants and other direct expenses).

2.96

-0.14

Top Quarter

3.32

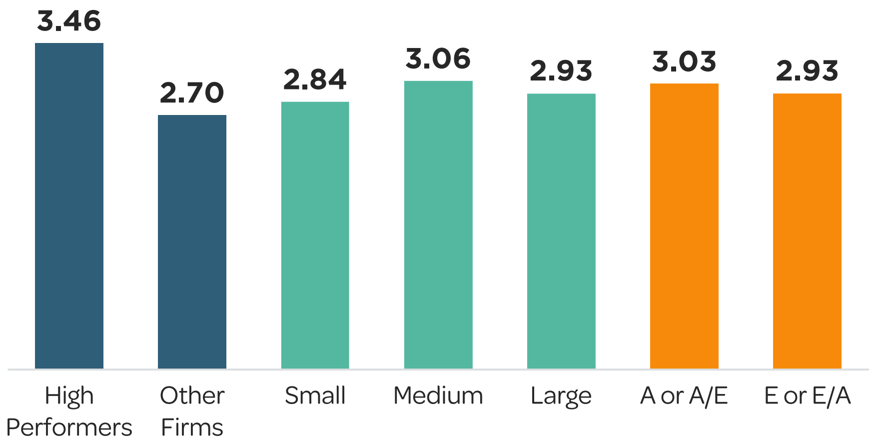
Bottom Quarter

2.43

Divide net revenue by direct labor (cost of labor charged to projects).

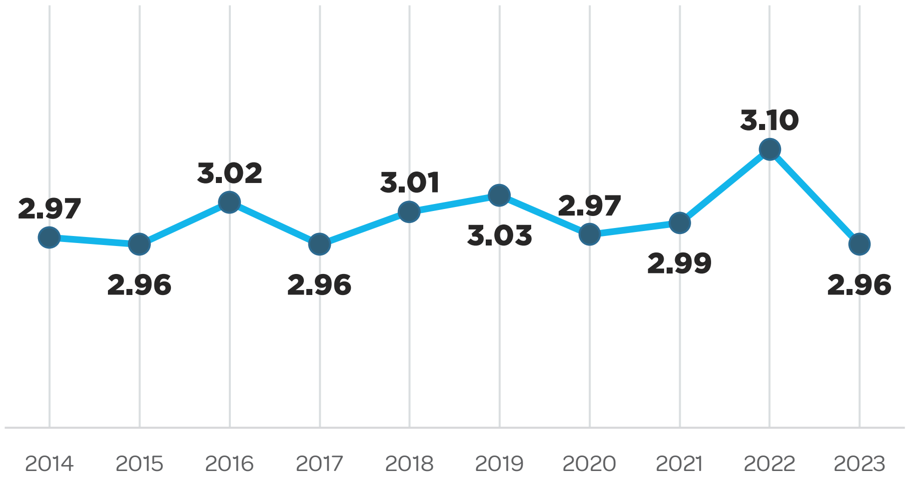
Net Labor Multiplier

In 2023, the reported median net labor multiplier in A&E firms experienced a slight decline, dropping by 0.14. This dip was notable across nearly every segment except the non-high performing firms. In particular, small, medium-sized and architecture firms saw the largest dips in net labor multiplier as their direct labor costs rose more quickly than their year over year net revenue. Accounting for this dynamic will be critical to ensuring firms with stagnating net labor multipliers are able to generate outsized returns as wages and labor-related costs continue to affect bottom-line performance.



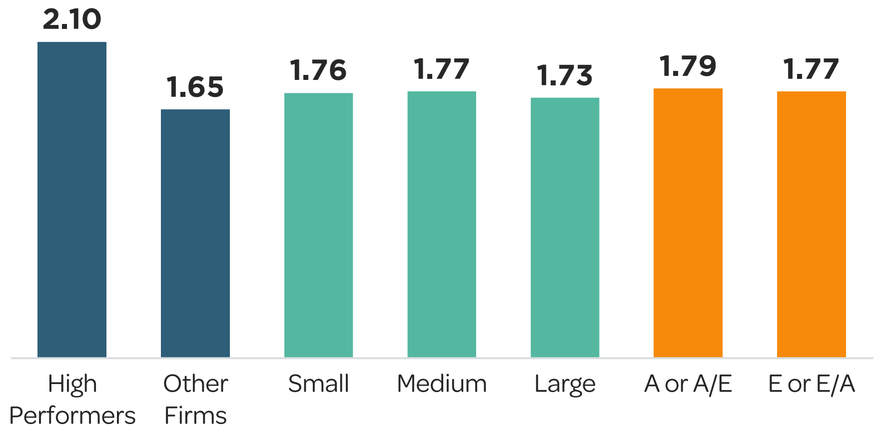
10-Year Trend

Over the past decade, the median net labor multiplier for A&E firms has typically hovered around 3.00. In 2022, results outpaced this trend for the first time, pushing overall net labor multiplier to 3.10. However, in 2023, net labor multiplier declined to the lowest level observed in the last 10 years as Reimbursable Consultant and Direct Consultant costs saw upticks this year that were most notable among high performers and medium-sized firms.



Total Payroll Multiplier

In 2023, the total payroll multiplier for A&E firms declined 0.09 versus year-ago results as both direct and indirect labor costs increased slightly faster than revenue performance over the past year. Remarkably, high performers and all other firms observed minimal year over year adjustment as changes both segments experienced in project-related expenses were largely aligned with total annual revenues. Small and medium-sized firms experienced more pronounced drops of 0.8 and 0.9, respectively, as their total annual revenues lagged expense changes in reimbursable consultants and other direct costs. Architecture firms dropped by 0.16 during the period, representing a significant change relative to 2022.



1.76

-0.09

Top Quarter

2.03

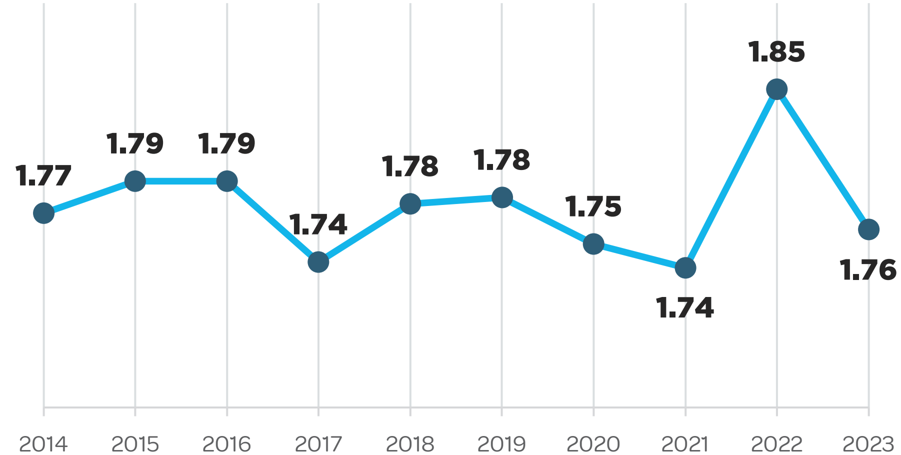
Bottom Quarter

1.52

Multiply net labor multiplier by utilization rate.

10-Year Trend

Similar to the spike in performance observed for net labor multiplier in 2022, total payroll multiplier saw a material jump last year, but returned to recent trend levels for 2023. Performance level this year is largely in line with results posted for the bulk of the last 10 years, representing a likely stasis point for firms moving forward.



61.1%

+0.8

Top Quarter

70.9%

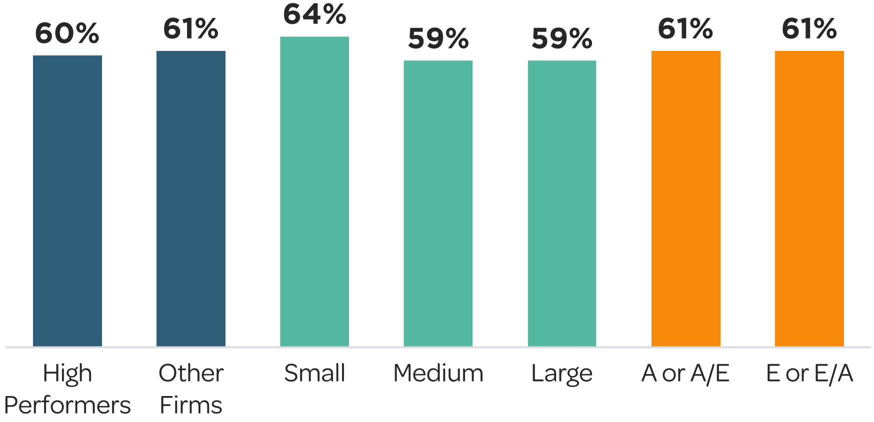
Bottom Quarter

55.0%

Divide cost of labor charged to projects by the total labor cost of the firm

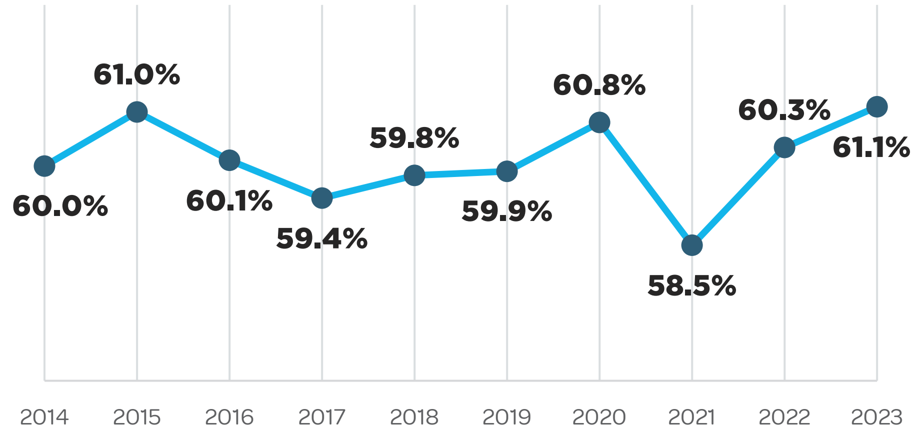
Utilization Rate

In 2023, the median utilization rate saw a notable increase of 0.8 percentage points compared to the previous year. This uptick was primarily fueled by improvements observed among small and non-high performing firms. These segments indicated improved efficiency in resource leverage resulting from a demonstrable shift in direct labor costs as a percentage of their overall payrolls.



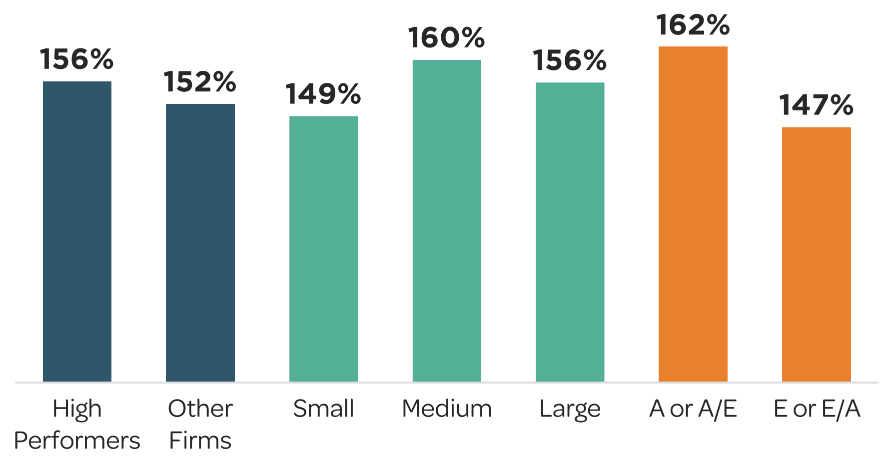
10-Year Trend

The 2023 increase in reported utilization rates for A&E firms reached a high point across the last 10 years (61.1%), improving slightly over results reported in 2015. The upward trajectory over the last several years reflects firms' ongoing efforts to enhance their operational efficiency and signals a promising outlook for the sector's continued financial health but could also lead to more staff burnout if not augmented with additional staff development investment.



Overhead Rate

In 2023, A&E firms' overhead rate declined slightly to 153.5% as all other firms and engineering-focused firms saw overhead rate decreases. High performers and small firms saw significant jumps compared to the previous year. Despite observed changes among small firms and engineering firms, their results still trail the overall overhead rate for 2023. Results indicate that A&E firms are keeping a close watch over non-project-related costs, which will continue to be important as revenue expansion opportunities are pursued.



153.5%

-1.3 %

Top Quarter

185.2%

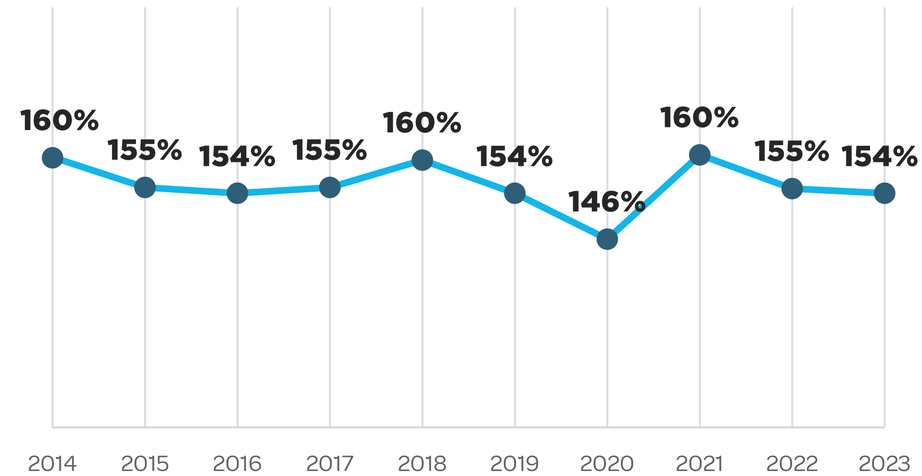
Bottom Quarter

117.5%

Divide total overhead (before distributions) by total direct labor expense

10-Year Trend

Over the past decade, overhead rates for A&E firms have hovered around 155% each year, despite a few outliers. Following a notable dip in 2020 and then resurgence in 2021, 2023 results returned to the long-term trend, suggesting an ongoing focus on managing overhead costs within the industry.



9.15

+0.21

Top Quarter

13.66 months

Bottom Quarter

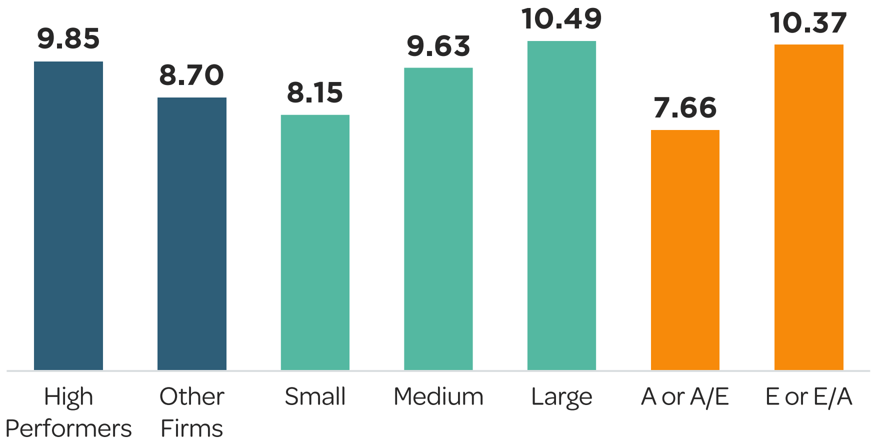
4.66 months

Divide backlog dollars by total revenue, then multiply by 12.

Backlog in Months

In 2023, A&E firms noted a modest rise in revenue backlogs, which increased by 6.3 days overall. Small firms indicated their revenue backlogs increased by 23 days. Large firms saw their revenue backlogs increase by nearly 11 days and engineering firms reported their revenue backlogs increased by nearly 26 days. Conversely, high performers (-10 days), medium-sized firms (-15 days) and architecture firms (-30 days) all saw their revenue backlogs decline year over year.

Firms with backlog increases are largely experiencing an uptick in project demand and workload distribution. Segments experiencing revenue backlog declines may need to look at diversifying their project portfolios and client mix to boost their backlogs as some markets slow or increased project costs drive project delays or potential cancellations.

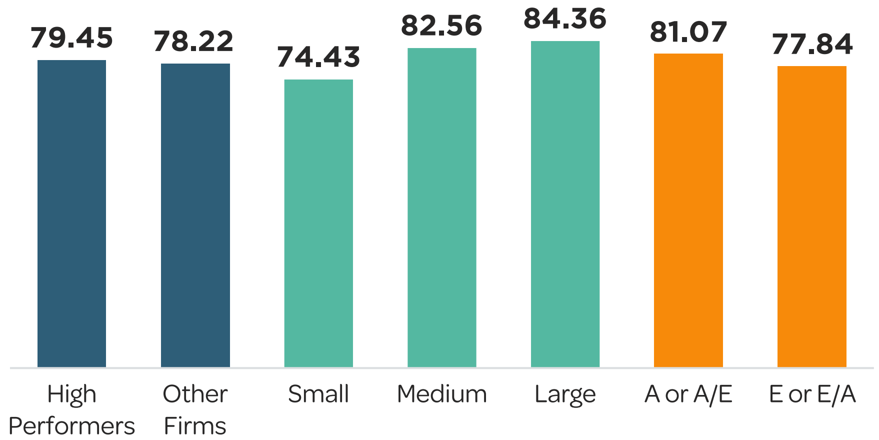


Average Collection Period (in Days)

In 2023, overall reported average collection period for A&E firms increased by 1.69 days versus 2023.

Although the rise reflects a trend observed in each key segment this year, some businesses were disproportionately affected by increases in invoice collection times. For instance, large firms reported extending their collection periods by roughly seven days, high performers by more than five days, medium-sized firms by more than four days and architecture firms reported a three-and-a-half day jump in their average collection period.

These increases highlight the challenges firms face in managing cash flow and how critically important it is to aggressively and proactively manage collections and billing accuracy to support financial health and longevity.



79.35

+1.69 days

Top Quarter

58.19 days

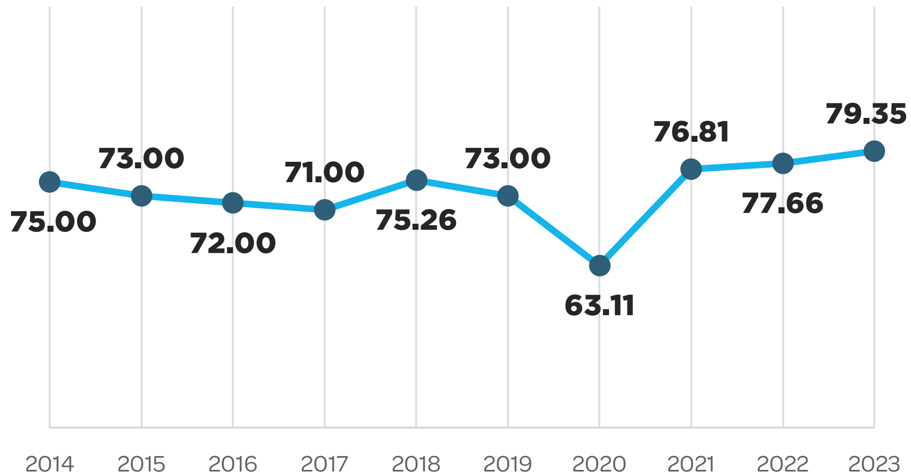
Bottom Quarter

93.93 days

Divide accounts receivable by annual total revenue, then multiply by 365.

10-Year Trend

Over the past decade, A&E firms have experienced a shift in average collection periods. Pre-COVID, average collection periods were typically between 71 and 73 days. Post-pandemic, however, firms consistently indicate a lengthening in collection periods as invoice extensions become more prevalent and firms continue to navigate the unpredictability of "pay when paid" contracts.



$163,033

-$5,125

Top Quarter

$189,806

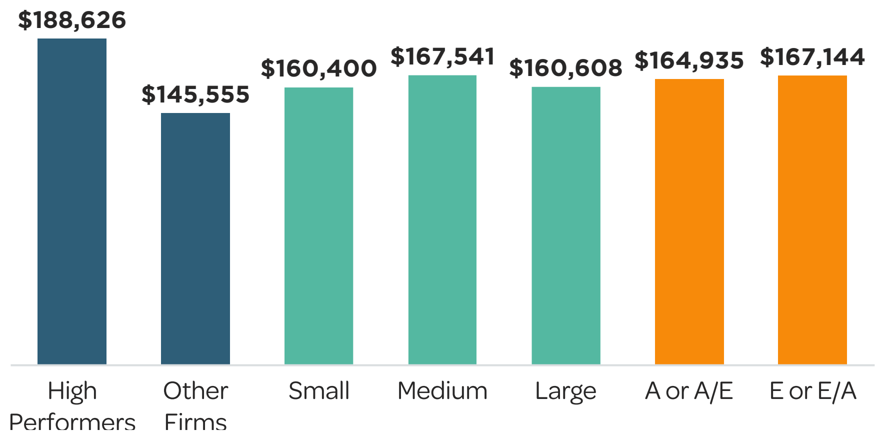
Bottom Quarter

$131,806

Divide net revenue by average total staff during the year, including principals.

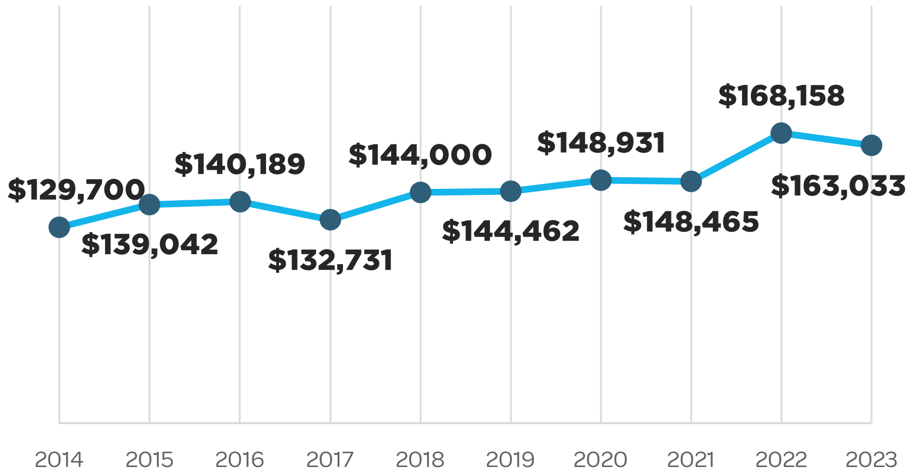
Net Revenue Per Employee

In 2023, the median net revenue per employee in A&E firms declined by more than $5K, a three percent decline from 2022, despite relative stability in employee counts. Interestingly, results from large and architecture firms showed a decline year over year, down roughly $10K and $20K, respectively. Conversely, engineering firms witnessed an increase of more than $6K over the same period.



10-Year Trend

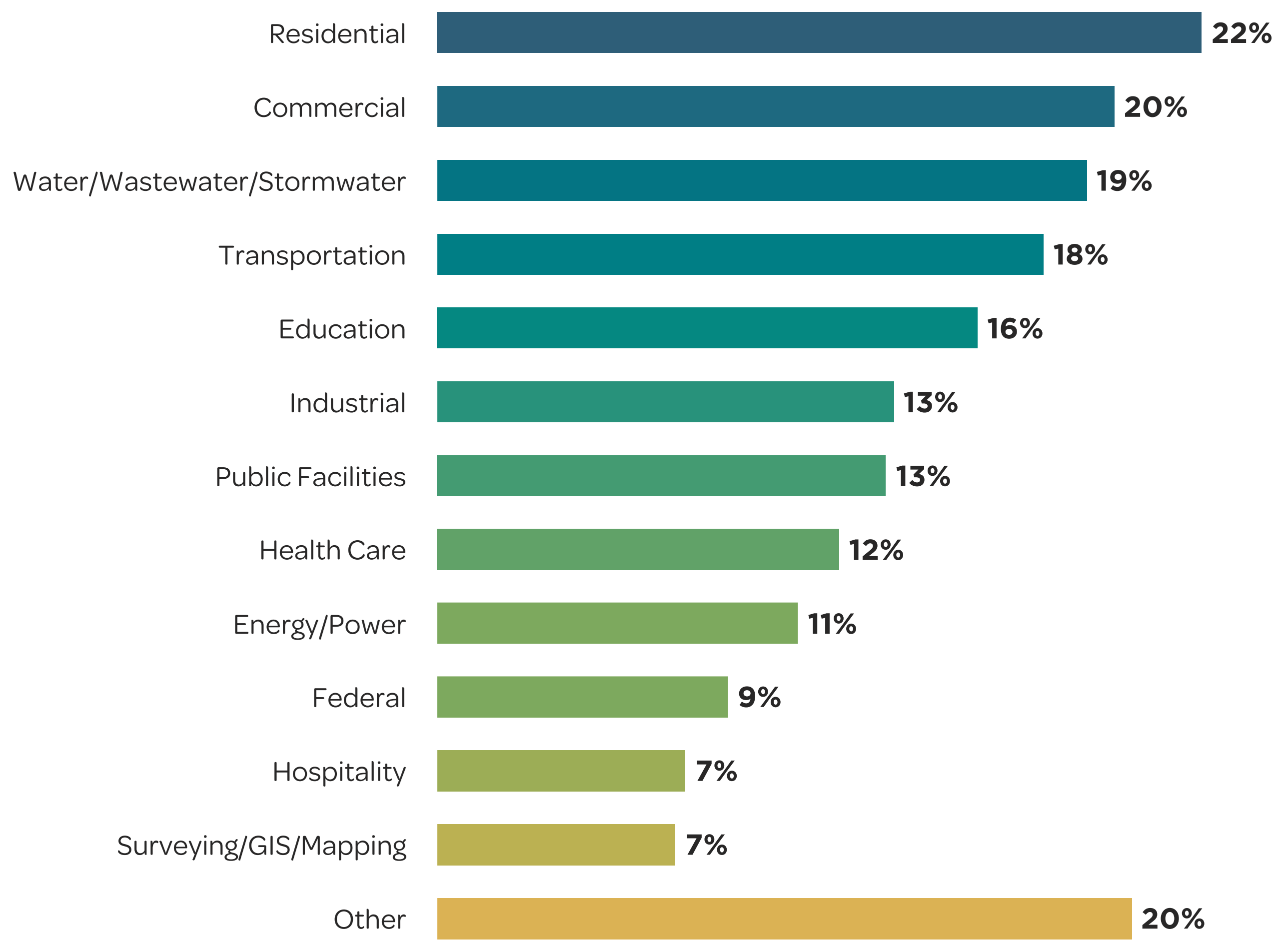
Despite a year over year decline of 3% in net revenue per employee, performance is still quite strong relative to results over the last ten years. This suggests that companies can generate revenue growth ahead of staff increases and effectively manage workloads over time by carefully planning when to add new staff to help ensure a balance between productivity and costs.



Net Revenue by Project Type

Net revenue in A&E firms has undergone a noticeable realignment, with a comeback in traditional project sectors like commercial, healthcare, water and public facilities. Water/wastewater/stormwater market projects experienced notable growth (from 16% to 19%) as transportation and residential projects fell four and three percentage points, respectively, compared to 2022.

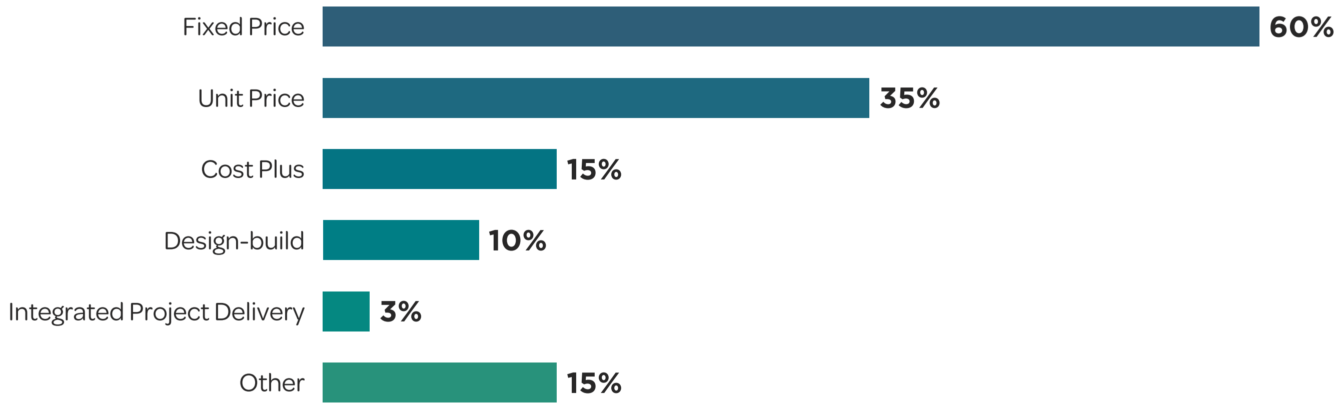
This shift coincides with the continued influx of federal infrastructure funding. Moreover, firms are adapting to the changing landscape by diversifying their project portfolios, which is evident in the growth of other project types in 2022. The most common “other” project types identified were consulting, recreation, sports and environmental projects.



Revenue Mix by Contract Type

In 2023 the bulk of reported revenue continued to be the result of fixed price contracts, which represented 60% of respondents' project revenue and was unchanged from 2022. Respondents also indicated that more than a third of their 2023 project revenue came from unit price contracts. An uptick in other contract types was driven by a variety of responses, but centered mostly on lump sum, time and materials and percent constructed contract types, indicating a shift in the diversity of the contract types firms are utilizing.

Revenue from cost plus contracts dropped slightly to 15% in 2023, down two percentage points. Design-build contracts, though, grew by two percentage points, rising from 8% to 10% in 2023.

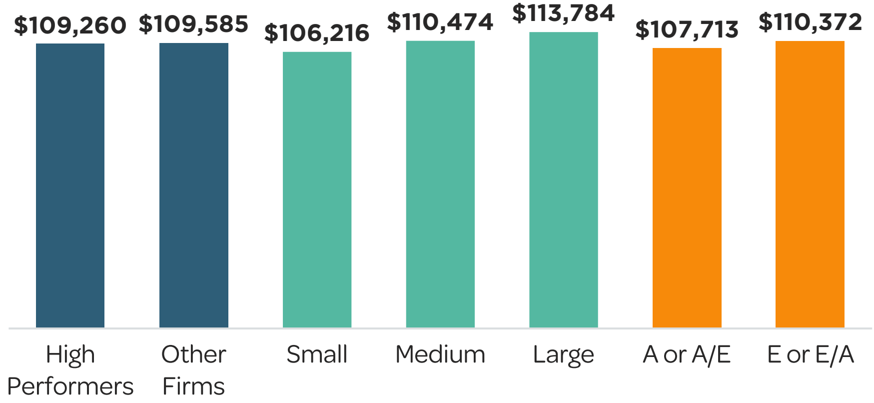


Total Labor Costs per Employee

In 2023, total labor costs per employee among A&E firms remained relatively stable, experiencing a nominal increase of $345. This modest uptick coincided with adjustments to labor-related expenses and inflation effects that were directionally in line with changes in firms' headcount levels last year.

Small firms saw the most significant increase, as firms reported a change of more than $3,000 per employee versus a year ago. Similarly, large firms reported an increase of more than $9,000 compared to 2022. Medium-sized firms were largely unchanged, with relatively few adjustments to labor costs or employee counts.

These findings underscore the subtle dynamics A&E firms confront in managing labor costs and their focus on adding impact talent on the margins while maintaining a broadly competitive compensation approach.



$109,343

+$345

Top Quarter

$123,485

Bottom Quarter

$93,004

The sum of total labor and other labor-related expenses (taxes, insurance, etc.) divided by the average number of employees during the year. Excludes bonuses.

$91,336

+$608

Top Quarter

$102,061

Bottom Quarter

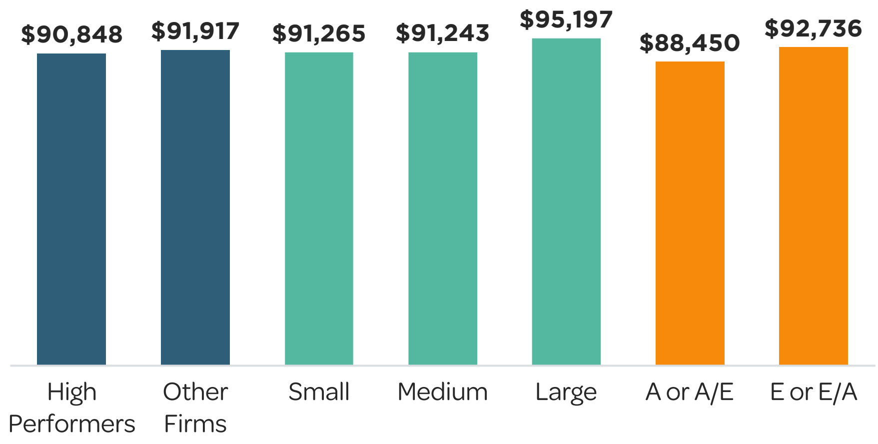
$78,152

Divide total labor expenses by the current number of full-time employees.

Gross Wages per FTE

In 2023, gross wages per full-time equivalent (FTE) in A&E firms stabilized, registering a marginal increase of less than one percent compared to the previous year. This slight growth contrasts with the notable five percent surge observed in 2022 results. Particularly, several crucial segments within the industry experienced upticks, including high performers, small firms, large firms and engineering firms. Despite overall wage stability, the nuanced performance across different segments highlights the importance of tailored compensation strategies that prioritize staff retention and engagement.

Understanding the drivers of trends for metrics like gross wages per FTE and total labor costs per FTE provide important visibility into key areas of investment for firms. These insights can ensure labor cost increases are accounted for in project staffing design and delivery and allow managers to ensure labor cost growth is balanced by topline revenue increases and effectively translated into labor multiplier improvement.

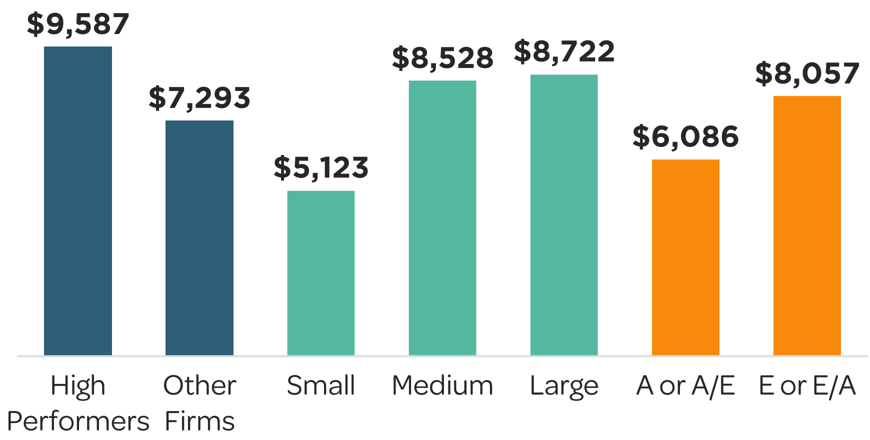


Net Fixed Assets Per Employee

In 2023, net fixed assets per employee among A&E firms fell by six percent, reflecting a strategic reprioritization of investments, particularly across fixed assets like infrastructure, hardware and software.

High-performing firms and engineering firms were relatively stable year over year, both with slight improvements in 2023. Large firms and architecture firms, however, reported significant declines in net fixed assets per employee, underscoring key performance differences among firms of varying sizes, performance levels or specialization.

As firms navigated evolving priorities and market demands, their resource allocation decisions – particularly shifting away from fixed asset investment in favor of on-demand operational expenses for software and technology solutions – indicate firms are aware of the changing investment landscape and are leveraging new tools and abilities to establish and expand upon their competitiveness as they drive for sustained growth.



$7,521

-$470

Top Quarter

$17,071

Bottom Quarter

$2,602

Total fixed assets minus goodwill and depreciation, then divided by the current number of employees.

3.11

-0.18

Top Quarter

5.31

Bottom Quarter

2.02

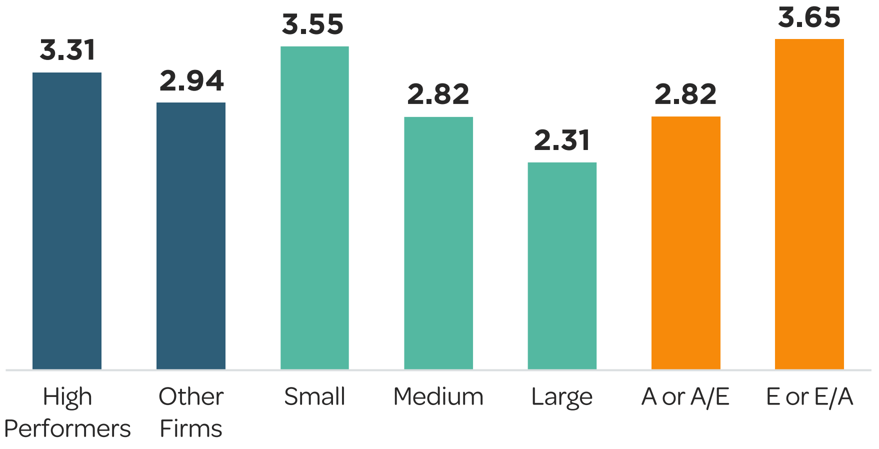
Divide current assets (cash and near-cash assets) by current liabilities (due in one year or less).

Current Ratio

The overall current ratio among A&E firms remained relatively stable compared to the previous year, declining by 0.18.

The observed decline could represent firms' additional capacity to drive efficiencies in 2023 relative to a year ago. Particularly, firms may have reduced their levels of current assets relative to current liabilities by accelerating accounts receivable collections last year. As well, firms that invest in growth opportunities and expansion projects will tend to lower current assets relative to current liabilities. In these instances, a current ratio decline would reflect a set of strategic management decisions and may not fully translate into less liquidity relative to 2022 results.

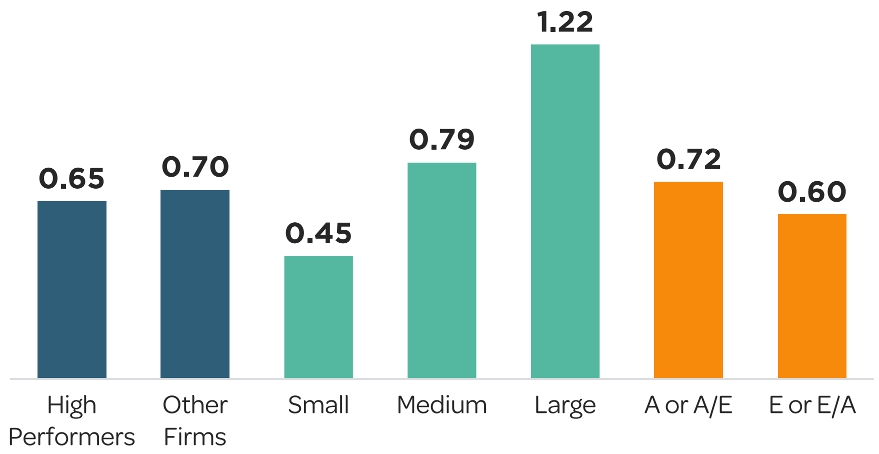
That said, current ratio decreases were most noticeable among high performers, medium-sized firms and engineering firms. In contrast, both small and large firms reported notable increases compared to 2022 results.



Debt to Equity Ratio

The debt-to-equity (D/E) ratio is a crucial financial metric that assesses a company's financial leverage. In 2023, the median debt-to-equity ratio in A&E firms was 0.66, a slight increase from 0.61 a year ago. A modest increase, this year's results suggest that firms continue to strategically leverage debt as a means to access higher returns.

High performers, all other firms, medium-sized and large firms across both A&E sectors, reflected the overall result of debt levels rising faster than stockholder's equity and highlights a cautious, yet confident, approach to financial management that positions firms favorably to navigate today's economic reality.



0.66

+0.05

Top Quarter

1.28

Bottom Quarter

0.32

Divide total liabilities by stockholders' equity.

19.1%

-4.5 %

Top Quarter

40.7%

Bottom Quarter

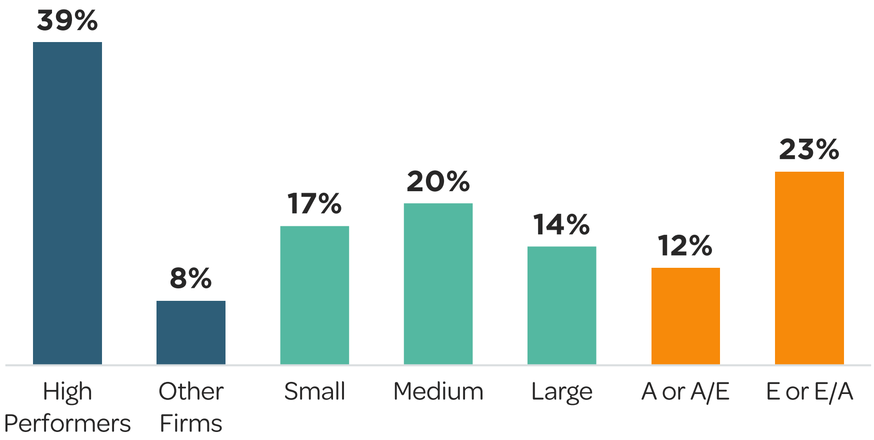
-11.3%

Pre-tax income (operating profit less bonuses, interest and other income or expenses) divided by stockholders' equity, times 100.

Return on Equity

In 2023, overall return on equity for A&E firms declined by 4.5 percentage points to 19.1% in 2023.

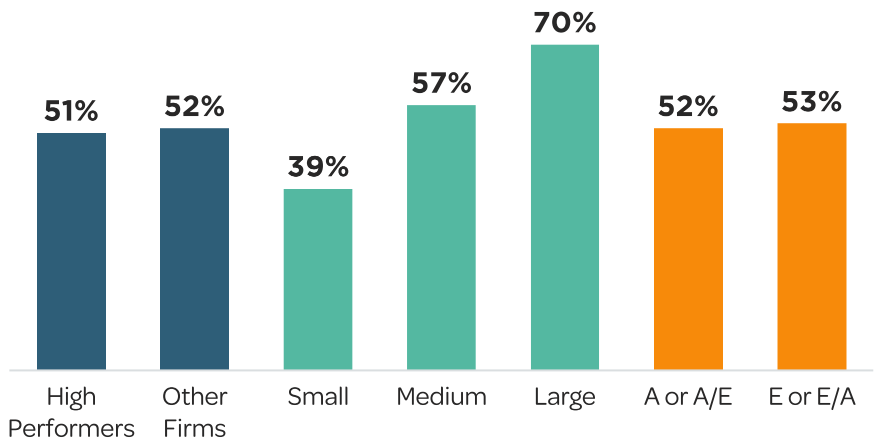
Declines were most prominent within small, medium-sized and architecture firms, who may have experienced challenges this past year generating profit growth at velocity levels similar to gains in shareholders' equity. High performers, large firms and engineering firms all indicated that their returns on shareholder's equity were flat-to-up relative to a year ago.



Firms with a Completed Firm Valuation

Compared to a year ago, more firms (+1.5 points) indicated their firm had completed a firm valuation within the past two years. Large firms and engineering firms indicated more significant increases, each with an 8 percentage point surge in completed firm valuations. On a smaller scale, all other firms also increased relative to last year, by 3 percentage points. High performers, small firms and medium-sized firms were largely unchanged in 2023.

An uptick in merger and acquisition activities across the A&E landscape may be motivating a growing awareness and prioritization of firm valuations among A&E firms.



52.1%

+1.5

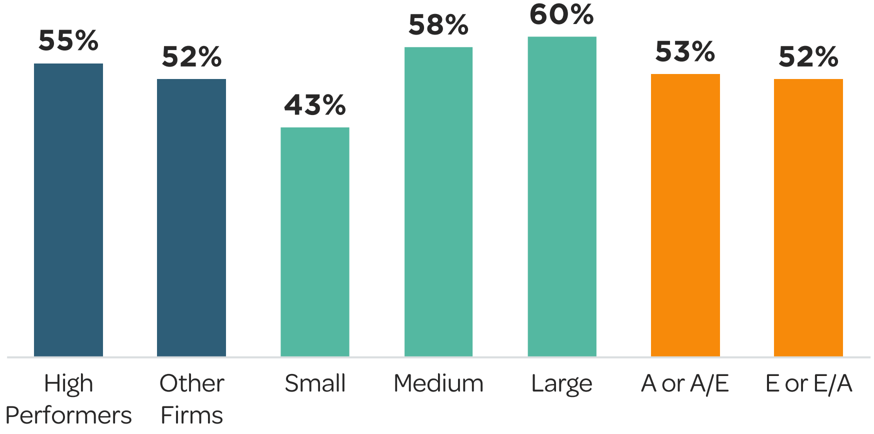
52.6%

+3.2

Firms that Plan to Complete a Valuation

Overall, 52.6% of A&E firms without a recent firm valuation indicated an intention to complete a firm valuation within the next 12 months, up 3.2 percentage points versus 2022. Notably, all segments experienced growth, with the most significant increases observed among all other firms (+5 points), large firms (+6 points) and architecture firms (+4 points).

This upward trend suggests a growing recognition of the importance of firm valuations within the industry, driven largely by merger and acquisition activity, particularly among the best-performing firms, both buyers and sellers. Findings underscore the proactive focus firms place on managing their financial health, securing their strategic positioning and preparing to engage in partnership discussions.



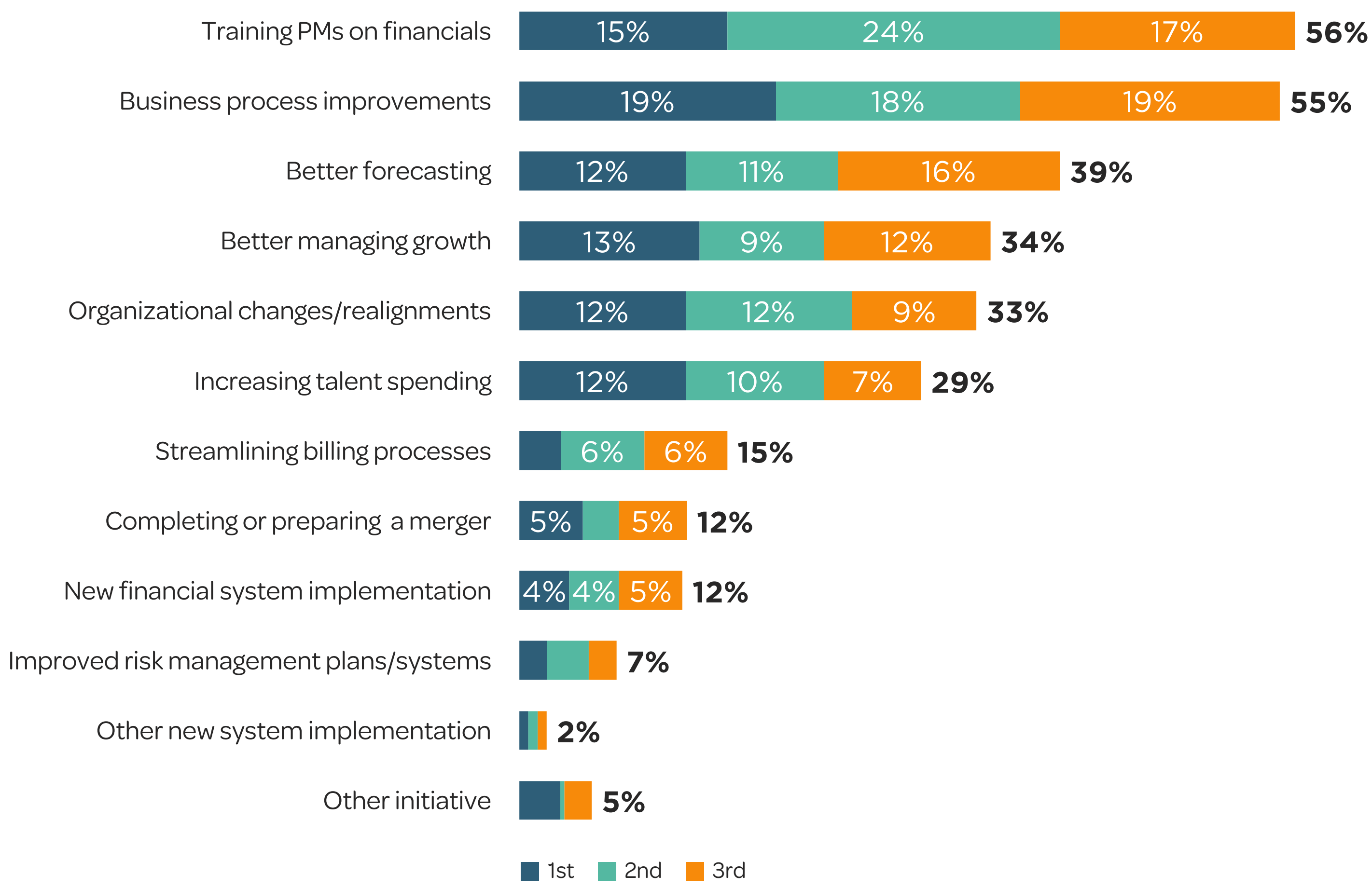
Top Financial Initiatives

In 2023, A&E firms identified the key financial initiatives they plan to implement to address their greatest challenges over the next three years.

The top two initiatives, training project managers on financial management (+3 points) and business process improvements (+0 points), swapped positions, indicating a priority shift from a process-focus to a people-focus with an emphasis on enhancing project management capabilities and optimizing operational efficiency by developing existing human capital.

Better forecasting also emerged as a top financial initiative going forward, increasing (+7 points) versus last year. Better managing growth (-4 points), organizational changes/realignments (-1 point) and increasing spending for talent acquisition and retention (-10 points) all declined in 2023 compared to the previous year, suggesting a strategic pivot towards improving financial planning and resource allocation to better meet market uncertainties moving forward.

Overall, the top financial initiatives for A&E firms reflect a concerted effort to bolster financial acumen, streamline processes and adapt to evolving market dynamics. These initiatives indicate a degree of proactivity to mitigating risks and capitalizing on sustainable growth opportunities, but do not overlap completely with the biggest challenges respondents highlighted in 2023.



05

CLARITY OUTLOOK

FINANCIAL MANAGEMENT

In 2023, A&E firms' costs rose as did revenue, stabilizing operating profit margins. Increased labor expenses and prolonged collection times restrained financial performance. Asset investments slowed, but firms improved utilization rates to extract additional value from project labor.

Financial management in A&E firms saw costs increase in 2023 alongside reported revenue growth, resulting in largely flat operating profit margins. These rising costs were primarily attributed to increased labor expenses, encompassing both indirect costs and overall wages, which restrained financial performance. Despite these challenges, firms managed to improve utilization rates year over year, indicating a more effective and efficient use of delivery-focused talent.

Declines observed in net fixed assets per employee, current ratio and debt-to-equity ratio may signal a shift in firms' asset investment approaches compared to 2022. This shift is further reflected in declines for both return on assets and return on equity, which suggest firms are being cautious about traditional capital and fixed asset investments, while likely also taking advantage of opportunities to leverage on-demand, technology-based operational expenses to develop project deliverables.

As firms navigate this evolving economic landscape, continued optimization of financial management strategies and balancing costs against revenue growth opportunities becomes increasingly crucial to sustaining profitability and securing long-term growth.

SUMMARY

While the outlook remains positive, challenges persist. Costs rose in 2023 and highly skilled talent continues to be in demand. Maintaining focus on operational efficiencies is critical as are upskilling, cross-training and career pathing.

Labor costs and talent gaps continue to challenge project delivery.

Firms are increasingly seeking suitable teaming partners and leveraging strategic networking to source and close new business opportunities.

When entering new partnerships, firms must be mindful of the financial implications of revenue sharing.

A&E executives acknowledge the need for more formalized training to cultivate the next generation of project leaders, particularly as they have focused on technology investments. Firm leaders who have realized the benefits of technology investments are planning for more technology investments in their strategic planning. With skilled staff, career pathways and technology deployed across the company, these firms will be in a position to innovate using the latest technologies and stand out as leaders in the industry.

STATISTICS AT A GLANCE

	ALL PARTICIPANTS	HIGH PERFORMERS	ALL OTHER FIRMS	SMALL (1–50 EMP)	MEDIUM (51–250 EMP)	LARGE (250+ EMP)	ARCHITECTURE OR A/E	ENGINEERING OR E/A
KPIS/BALANCE SHEET DETAILS								
KEY PERFORMANCE INDICATORS								
Net Revenue Per Employee	$163,033	$188,626	$145,555	$160,400	$167,541	$160,608	$164,935	$167,144
Total Revenue Per Employee	$205,951	$244,359	$195,483	$206,863	$206,016	$189,308	$235,706	$195,490
Operating Profit on Net Revenue	18.7%	27%	9%	24%	16%	15%	18%	19%
Operating Profit on Total Revenue	13.9%	21.7%	7.6%	17.4%	12.3%	12.2%	12.4%	16.8%
Utilization Rate	61.1%	60%	61%	64%	59%	58%	61%	61%
Net Labor Multiplier	2.96	3.46	2.70	2.84	3.06	2.93	3.03	2.93
Total Payroll Multiplier	1.76	2.10	1.65	1.76	1.77	1.73	1.79	1.77
Overhead Rate	153.5%	156%	152%	149%	160%	156%	162%	147%
Staff Growth/Decline	6.5%	8%	5%	5%	6%	9%	6%	6%
Employee Turnover	13.6%	12%	17%	16%	12%	16%	14%	14%
Total Labor Cost Per Employee	$109,343	$109,260	$109,585	$106,216	$110,474	$113,784	$107,713	$110,372
Net Fixed Assets Per Employee	$7,521	$9,587	$7,293	$5,123	$8,528	$8,722	$6,086	$8,057
Average Collection Period (Median)	79.35	79.45	78.22	74.43	82.56	84.36	81.07	77.84
Win Rate	49.1%	54%	50%	50%	48%	46%	42%	50%
BALANCE SHEET RATIOS								
Work-in-Process per Employee	$6,773	$6,456	$6,897	$10,000	$5,439	$16,917	$6,576	$6,942
Total Assets per Employee	$99,373	$117,214	$95,547	$97,292	$102,322	$110,084	$114,215	$96,726
Total Liabilities per Employee	$42,970	$39,701	$39,308	$29,078	$47,874	$57,173	$48,396	$36,545

STATISTICS AT A GLANCE

	ALL PARTICIPANTS	HIGH PERFORMERS	ALL OTHER FIRMS	SMALL (1-50 EMP)	MEDIUM (51-250 EMP)	LARGE (250+ EMP)	ARCHITECTURE OR A/E	ENGINEERING OR E/A
BALANCE SHEET RATIOS (CONTINUED)								
Total Equity per Employee	$53,474	$68,417	$48,706	$58,344	$50,736	$41,666	$54,671	$55,012
Return on Assets	10.4%	23%	4%	12%	9%	10%	4%	14%
Return on Equity	19.1%	39%	8%	17%	20%	14%	12%	23%
Backlog - End of Year per Employee	$163,570	$178,418	$142,857	$144,009	$173,795	$192,343	$168,377	$172,673
Backlog in Months	9.15	9.85	8.70	8.15	9.63	10.49	7.66	10.37
Current Ratio	3.11	3.31	2.94	3.55	2.82	2.31	2.82	3.65
Debt to Equity Ratio	0.66	0.65	0.70	0.45	0.79	1.22	0.72	0.60
INCOME STATEMENT DETAIL (PER EMPLOYEE)								
TOTAL REVENUE								
Total Revenue per Employee	$205,951	$244,359	$195,483	$206,863	$206,016	$189,308	$235,706	$195,490
DIRECT EXPENSES								
Consultants per Employee	$26,643	$35,850	$22,619	$26,066	$29,480	$21,309	$66,591	$18,221
Bad Debt per Employee	$539	$456	$588	$1,000	$416	$306	$693	$598
All Other Direct Expenses per Employee	$4,800	$4,078	$5,381	$4,996	$4,370	$6,655	$4,635	$4,353
Total Direct Expenses per Employee	$40,276	$44,322	$40,103	$39,507	$44,488	$28,700	$77,396	$28,096
NET REVENUE								
Net Revenue per Employee	$163,033	$188,626	$145,555	$160,400	$167,541	$160,608	$164,935	$167,144
DIRECT LABOR								
Direct Labor per Employee	$55,165	$54,231	$55,233	$58,043	$53,445	$54,562	$54,615	$55,730

STATISTICS AT A GLANCE

	ALL PARTICIPANTS	HIGH PERFORMERS	ALL OTHER FIRMS	SMALL (1-50 EMP)	MEDIUM (51-250 EMP)	LARGE (250+ EMP)	ARCHITECTURE OR A/E	ENGINEERING OR E/A
GROSS PROFIT								
Gross Profit per Employee	$112,563	$134,662	$98,207	$100,200	$122,500	$109,492	$115,102	$112,934
INDIRECT LABOR								
Vacation, Holiday, Sick & Personal per Employee	$9,167	$9,352	$8,926	$9,167	$9,221	$8,976	$8,926	$9,221
Marketing per Employee	$5,383	$5,065	$5,801	$5,000	$5,956	$7,941	$7,939	$4,989
All Other Indirect Labor per Employee	$22,353	$23,013	$22,159	$21,782	$22,760	$20,791	$23,063	$22,077
Total Indirect Labor per Employee	$36,279	$36,857	$36,279	$34,241	$38,032	$40,443	$36,035	$36,975
LABOR-RELATED EXPENSES								
Statutory Taxes per Employee	$7,041	$7,561	$6,864	$6,813	$7,244	$7,434	$6,909	$7,273
Workers' Comp. per Employee	$263	$254	$276	$272	$243	$277	$246	$301
Group Health, Life, Etc. per Employee	$7,328	$7,698	$7,062	$6,841	$7,841	$7,540	$7,119	$7,694
401(k) Match, Pension Plan, Etc. per Employee	$3,028	$3,163	$2,970	$2,969	$3,034	$3,601	$3,001	$3,058
All Other Labor-Related Expenses per Employee	$1,401	$1,231	$1,462	$1,536	$1,180	$1,374	$1,443	$1,462
Total Other Labor-Related Expenses per Employee	$18,667	$21,006	$18,084	$17,565	$19,328	$20,222	$18,322	$19,772
OTHER STAFF EXPENSES								
Professional Licenses, Registrations, Dues per Employee	$809	$966	$756	$763	$809	$1,313	$763	$848
MARKETING EXPENSES (NON-LABOR)								
Marketing Expenses per employee (marketing and business development expenses including materials, conference expenses, travel, etc.)	$1,413	$1,538	$1,332	$1,658	$1,222	$1,712	$2,433	$1,157

STATISTICS AT A GLANCE

	ALL PARTICIPANTS	HIGH PERFORMERS	ALL OTHER FIRMS	SMALL (1-50 EMP)	MEDIUM (51-250 EMP)	LARGE (250+ EMP)	ARCHITECTURE OR A/E	ENGINEERING OR E/A
CORPORATE EXPENSES								
Professional Liability Insurance per Employee	$2,077	$2,301	$1,949	$2,253	$1,970	$1,393	$2,464	$2,015
Other Business Taxes per Employee	$504	$761	$445	$736	$436	$141	$718	$421
All Other Corporate Expenses per Employee	$2,569	$3,114	$2,363	$3,349	$2,526	$1,024	$3,191	$2,165
Total Corporate Expenses per Employee	$5,172	$6,477	$4,948	$5,732	$4,723	$2,471	$6,692	$4,398
TOTAL OVERHEAD								
Total Overhead Expenses per Employee	$83,074	$84,709	$81,468	$80,279	$84,654	$84,714	$85,045	$82,582
OPERATING PROFIT								
Operating Profit (Loss) per Employee	$28,405	$52,053	$17,210	$19,791	$33,326	$26,226	$27,643	$33,677
INTEREST, BONUS, OTHER								
Interest-Net per Employee	$309	$180	$374	$268	$326	$340	$285	$261
Bonuses per Employee	$6,997	$13,282	$5,688	$6,757	$7,692	$6,957	$8,143	$7,549
Other (Income) or Expense	$41	$79	$23	$62	$18	-$37	$69	$16
PRE-TAX INCOME (LOSS)								
Pre-Tax Income (Loss) per Employee	$11,786	$20,571	$9,956	$11,057	$12,384	$9,974	$12,197	$11,802
TAXES								
Taxes per Employee	$1,290	$2,287	$1,088	$1,220	$1,273	$2,440	$1,204	$1,875
NET PROFIT								
Net Profit (Loss) per Employee	$11,422	$24,692	$8,463	$15,806	$11,080	$6,466	$12,001	$11,359

STATISTICS AT A GLANCE

	ALL PARTICIPANTS	HIGH PERFORMERS	ALL OTHER FIRMS	SMALL (1-50 EMP)	MEDIUM (51-250 EMP)	LARGE (250+ EMP)	ARCHITECTURE OR A/E	ENGINEERING OR E/A
BALANCE SHEET DETAIL (PER EMPLOYEE)								
CURRENT ASSETS								
Cash per Employee	$13,235	$15,505	$12,788	$19,457	$12,166	$8,032	$17,388	$12,463
Accounts Receivable per Employee	$44,283	$49,787	$42,019	$43,706	$45,933	$32,519	$55,844	$41,568
Work-In-Process per Employee	$6,773	$6,456	$6,897	$10,224	$5,439	$16,917	$6,686	$6,942
Prepaid Expenses per Employee	$3,164	$3,079	$3,173	$2,898	$3,261	$2,593	$3,438	$3,356
Other Current Assets per Employee	$752	$804	$615	$2,030	$508	$446	$702	$695
Total Current Assets per Employee	$72,500	$83,251	$67,892	$73,478	$73,145	$67,473	$89,813	$67,984
FIXED ASSETS								
Fixed Assets (except Goodwill) per Employee	$28,208	$35,773	$21,851	$21,500	$30,973	$28,776	$25,000	$30,168
Depreciation per Employee	-$16,479	-$21,741	-$14,698	-$14,047	-$19,086	-$15,596	-$16,350	-$18,308
Goodwill (net of amortization) per Employee	$3,198	$3,217	$2,629	$3,316	$2,629	$4,584	$1,119	$3,271
Total Fixed Assets per Employee	$10,647	$15,207	$9,121	$8,450	$13,028	$11,509	$8,101	$11,034
OTHER LONG-TERM ASSETS								
Long-Term Notes/Loans Receivable per Employee	$3,981	$7,578	$3,666	$7,898	$3,476	$1,764	$3,287	$5,059
Other Long-Term Assets per Employee	$4,983	$6,217	$5,322	$1,284	$3,878	$17,019	$2,888	$5,661
Total Other Long Term Assets per Employee	$2,356	$5,781	$2,198	$2,198	$7,898	$206	$2,198	$2,047
TOTAL ASSETS								
Total Assets per Employee	$99,373	$117,214	$95,547	$97,292	$102,322	$110,084	$114,215	$96,726

STATISTICS AT A GLANCE

	ALL PARTICIPANTS	HIGH PERFORMERS	ALL OTHER FIRMS	SMALL (1-50 EMP)	MEDIUM (51-250 EMP)	LARGE (250+ EMP)	ARCHITECTURE OR A/E	ENGINEERING OR E/A
LIABILITIES & STOCKHOLDER'S EQUITY								
ACCOUNTS PAYABLE								
Accounts Payable - Consultants per Employee	$6,412	$6,890	$4,923	$6,560	$7,881	$3,257	$15,695	$2,977
Accounts Payable - Vendors per Employee	$1,561	$1,501	$1,575	$1,770	$1,468	$1,108	$1,287	$1,531
Total Accounts Payable per Employee	$7,386	$9,573	$6,595	$7,622	$7,388	$6,505	$19,941	$4,093
ACCRUED EMPLOYEE EXPENSE								
Accrued Employee Salaries per Employee	$3,191	$3,644	$2,989	$3,173	$3,191	$3,246	$3,210	$3,246
Accrued Employee Vacation, Sick, Etc. per Employee	$3,247	$3,143	$3,279	$3,306	$3,116	$4,534	$3,101	$3,338
Other Accrued Employee Expense per Employee	$1,079	$908	$1,047	$909	$993	$2,631	$919	$1,325
Total Accrued Employee Expenses per Employee	$5,456	$6,055	$5,072	$4,314	$5,806	$10,874	$4,314	$6,107
OTHER CURRENT LIABILITIES								
Line-of-Credit & Short-Term Notes Outstanding per Emp.	$2,299	$2,122	$2,726	$1,545	$2,506	$8,839	$3,305	$1,304
Current Taxes per Employee	$592	$84	$691	$807	$188	$510	$506	$667
Other Current Liabilities per Employee	$4,276	$3,557	$4,304	$3,717	$4,304	$5,817	$5,872	$3,223
Total Other Current Liabilities per Employee	$8,966	$6,594	$9,090	$7,683	$9,296	$14,455	$11,079	$8,220
TOTAL CURRENT LIABILITIES								
Total Current Liabilities per Employee	$24,353	$23,228	$24,311	$23,118	$24,525	$32,823	$31,977	$18,651
LONG-TERM LIABILITIES								
Long-Term Debt per Employee	$9,856	$16,506	$9,821	$9,439	$16,506	$7,307	$17,922	$7,307
Deferred Taxes per Employee	$4,057	$3,157	$4,692	$6,318	$3,229	$5,409	$5,363	$3,737
Other Long-Term Liabilities per Employee	$12,435	$12,149	$11,241	$13,636	$11,257	$14,619	$8,757	$13,939

STATISTICS AT A GLANCE

	ALL PARTICIPANTS	HIGH PERFORMERS	ALL OTHER FIRMS	SMALL (1-50 EMP)	MEDIUM (51-250 EMP)	LARGE (250+ EMP)	ARCHITECTURE OR A/E	ENGINEERING OR E/A
TOTAL LIABILITIES								
Total Liabilities per Employee	$42,970	$39,701	$39,308	$29,078	$47,874	$57,173	$48,396	$36,545
STOCKHOLDERS' EQUITY								
Stock & Additional Paid-In Capital per Employee	$1,201	$1,352	$800	$665	$2,705	$11,678	$746	$3,084
Distribution/Dividends - Current Year Only per Employee	-$9,768	-$16,636	-$6,105	-$9,063	-$9,768	-$12,166	-$7,792	-$11,024
Principal's Equity - Long-Term Notes per Employee	$2,645	$2,645	-$607	$6,080	-$1,852	-$142	$2,331	$3,163
Previous Years Retained Earnings per Employee	$50,450	$52,961	$48,663	$60,566	$46,948	$26,964	$59,838	$49,272
Current Net Profit (Loss) per Employee	$11,422	$24,692	$8,463	$15,806	$11,080	$6,466	$12,001	$11,359
Other per Employee	-$7,536	-$8,017	-$7,868	-$8,200	-$5,808	-$4,145	-$10,794	-$3,600
Total Stockholders' Equity per Employee	$53,474	$68,417	$48,706	$58,344	$50,736	$41,666	$54,671	$55,012
Total Liabilities & Stockholders' Equity per Employee	$97,640	$116,793	$90,997	$98,299	$97,397	$95,959	$116,793	$95,734
SECTION METRICS								
BUSINESS DEVELOPMENT METRICS								
Net Revenue Growth Forecast	10.9%	8%	12%	8%	12%	15%	10%	12%
Win Rate	49.1%	54.1%	50.0%	50.2%	48.4%	46.4%	41.8%	50.0%
Capture Rate	48.7%	63%	44%	50%	49%	43%	54%	46%

STATISTICS AT A GLANCE

	ALL PARTICIPANTS	HIGH PERFORMERS	ALL OTHER FIRMS	SMALL (1-50 EMP)	MEDIUM (51-250 EMP)	LARGE (250+ EMP)	ARCHITECTURE OR A/E	ENGINEERING OR E/A
BUSINESS DEVELOPMENT METRICS								
Percentage of firm's net revenue contributed by Top Client	18%	19%	19%	24%	15%	12%	20%	16%
Percentage of firm's net revenue contributed by Second Client	9%	8%	11%	11%	7%	6%	9%	8%
Percentage of firm's net revenue contributed by Third Client	6%	6%	8%	8%	5%	4%	7%	6%
Percentage of firm's net revenue contributed by Top Three Clients	33%	34%	38%	43%	28%	21%	36%	30%
PROJECT MANAGEMENT METRICS								
Percentage of firm's projects are on or under budget (Mean)	69.2%	74%	63%	66%	71%	72%	62%	73%
Percentage of firm’s projects are on or ahead of schedule (Mean)	57.9%	58%	53%	53%	61%	67%	50%	63%
Firms completing internal project performance evaluations (Mean)	58.0%	55%	58%	52%	54%	83%	58%	58%
Firms measuring client satisfaction (Mean)	44.2%	38%	45%	35%	43%	71%	39%	45%
HUMAN CAPITAL MANAGEMENT METRICS								
Staff Growth/Decline	6.5%	8%	5%	5%	6%	9%	6%	6%
Employee Turnover	13.6%	11.8%	16.7%	16.2%	12.2%	15.5%	13.6%	14.1%
Voluntary Turnover	10.7%	8.2%	8.4%	3.4%	11.4%	43.8%	6.1%	13.9%
Involuntary Turnover	3.9%	2.6%	3.0%	1.4%	4.0%	15.1%	3.3%	4.3%
Average Time to Fill Position	31-60 Days	31-60 Days	31-60 Days	>90 Days	31-60 Days	31-60 Days	31-60 Days	31-60 Days

STATISTICS AT A GLANCE

	ALL PARTICIPANTS	HIGH PERFORMERS	ALL OTHER FIRMS	SMALL (1-50 EMP)	MEDIUM (51-250 EMP)	LARGE (250+ EMP)	ARCHITECTURE OR A/E	ENGINEERING OR E/A
FTE BREAKDOWN BY CATEGORY								
Technical and Professional	109	62	53	20	88	490	78	131
Marketing and Business Development	5	4	3	1	4	20	5	6
Financial/Accounting	5	3	3	1	4	18	4	6
Technology/IT	4	2	2	1	2	14	3	4
Human Resources	3	2	2	1	2	9	2	3
Administrative or Clerical	6	4	3	2	5	23	4	7
Other Executives	4	4	3	2	4	11	3	5
Other Employees	11	7	4	3	9	30	10	13

DELTEK FOR ARCHITECTURE & ENGINEERING FIRMS

Better software means better projects. Deltek is the leading global provider of enterprise software and information solutions for project-based businesses. Deltek offers software and information solutions that deliver business intelligence, project management and collaboration. Our industry-focused expertise powers project success by helping firms achieve performance that maximizes productivity and revenue. Deltek customers include 95% of the ENR Top 500 who use our solutions to:

- Gain complete visibility into all aspects of their business
- Deliver projects on time and under budget
- Streamline their financial management
- Find, recruit and retain the best and brightest talent
- Nurture client relationships and improve win rates
- Manage project and firm-wide information
- Streamline the financial management
- Gain complete visibility into all aspects of their business