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INCREASING MARGINS:

Public-Private Partnerships: The New Paradigm

In the last decade, interest in public-private partnerships (PPP or P3) has expanded rapidly around the world as a means of helping to procure, manage, and maintain infrastructure assets. P3s are valued in developed and developing countries alike for their ability to leverage public money with private financing, and for the private sector expertise and innovation that they bring. However, the marketplaces differ dramatically, with different reasons for P3 adoption. A group of experts at the McGraw-Hill 2010 Global Construction Summit share success stories, challenges, and their thinking on the advantages that P3s offer, and how this model might develop as a preferred method of project delivery as we emerge from the economic turbulence of the past year.

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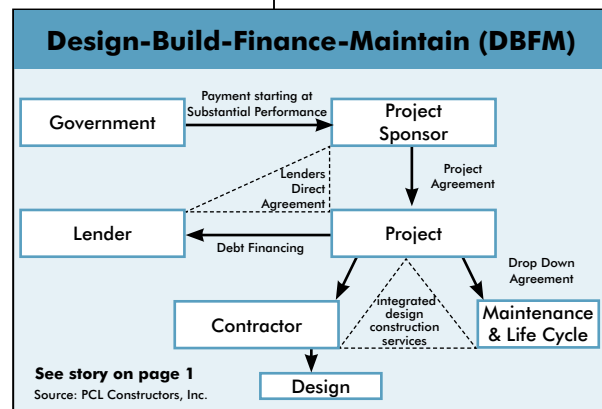
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EXERCISING LEADERSHIP:

A Client Maintenance Plan Is a Top Priority Today

We have all heard the statistics that underscore how much easier, faster, and cheaper it is to obtain a new project from a current client than to secure one from a new client. But yet, many A/E/C firms continue to focus their business development efforts on primarily pursuing new clients in a perceived effort to expand and/or diversify. However, in today's challenging economy, focusing on maintaining your current clients and developing a maintenance plan makes more sense than ever. A carefully executed client maintenance plan can actually lower business development costs, and increase profitability and the comfort of working with clients that have built up trust in your firm's ability to provide them with excellent service.

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Is It Better to Diversify or Add Services in a Recession?

The recession everyone hoped would end quickly has now been in a deep freeze for many months. The initial fear has now turned to determination by firms who want to hold on, seeing promising signs of a thaw and better times. Along the way, many firms have sought different tactics to avoid the overwhelming competition for scarce projects. Many firms are chasing everything in

sight with little or varying degrees of success.

Many firms try to be all things to all people, and think they are reducing risk by trying to become a diversified practice, but wind up with tremendous expenditures and little return. Diversification works very well in a demand market, but becomes risky in a recession. Most practices are cyclical by nature and the cycle of the economy adds to the precipitous peaks and valleys.

On the other hand astute firms are pursuing a cautionary combination of pursuing perceived hot markets and a longer-term strategy of expansion of both a firm's cadre of services and mix of its client base. Take care of your existing client base first and foremost. Shower them with service, even if they are experiencing budget cuts. Look for additional ways to add value to their business. Research and position yourself strategically against your closest competition. Finally, practice cautious diversification within your own core competencies, as the further you get away from your strengths the closer you are to your competitor's strengths.

Diversification into providing services in other market sectors takes research, planning and insight. If pursuing public projects, it requires awareness of initiatives at the state, local, and federal levels that will be appropriate for your firm's expertise. Most firms head straight for the public sector looking for work only to discover

Additional Services to Provide

Before the project

- Real estate surveys, inventories, and property appraisals.
- Finding project funding and getting regulatory approvals.
- Feasibility studies and site investigations.
- Site development and rezoning approvals.
- Planning studies for restorations, renovations, or adaptive reuse.
- Advanced planning for industrial, institutional, or commercial development.
- Green or sustainability consulting.

During the project

- Package a seminar program for clients based on the firm's specialized expertise.
- Publish articles on critical aspects of a client's project.
- Graphic design and signage for the project, and for the client's promotional vehicles.
- Perform simulations and energy modeling.
- Develop checklists on life safety, or building maintenance or renovation.

After the project

- Facilities management plan for the building.
- Furniture, fixture, and equipment inventory.
- Building repair and maintenance manuals.
- Tenant related services, space planning, sales, and leasing management.
- Energy conservation diagnostics and retro-fitting.

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that the road to public projects is paved with good intentions and contains many roadblocks. A transition to other sectors and markets involves scenario planning, such as examining changing technologies, social movements and demographics changes. It also requires a flexibility to change

and grow outside of the previous company model if necessary. A transition will not happen overnight. (See checklist on page 9). Above all, maintain all existing client relationships, as they may reemerge in a new business area in the future. □

Sound Advice: Inspiring Thought Leadership

In a series of podcasts by Capelin Communications, Joan Capelin, Hon. AIA, PRSA, FSMPS, talks with some very knowledgeable people about how the design and building industry are getting through today's tough times. Here Joan speaks with Ann Banning-Wright, senior vice president, board member, managing director of Syska Hennessy Group's Western region, managing Syska's 160-person Los Angeles office. She is the firm's Chief Strategy Officer.

Joan Capelin: *Let's put this right on the table. You're not an engineer, yet you're running a big operation. So you have the advantage of an outsider's perspective on what engineering firms need in order to get through the recession. Would you give us some of that insight?*

Banning-Wright: I think the relationship between an engineer and a nonengineer is a great complement to each other. Right now, in the recession, it's less about execution and the technical side. It's where the soft skills have to come in, being in the heads of our clients, being able to really listen and even make linkages for the client as to what they need to be thinking about.

Capelin: *You tell people not to worry about competitors, but rather to know what they want for their career and firm. Now that's different. How does that apply?*

Banning-Wright: If we focus on competitors, we're not focusing on our clients. If you really listen to your client, you don't have to worry about your competitors because you'll be in

front of the game. You'll be going to the source.

Capelin: *That's interesting because you have an ability to train people, so do you feel you can teach people to be a good consultant?*

Banning Wright: Absolutely. We're not asking them to be sales people. We're not asking them to do anything other than to better articulate that what they do is important to the client.

Capelin: *Some people describe you as a natural futurist. How does one become a futurist?*

Banning Wright: It's having an ability to hunt for things in a different way, and an innate curiosity and real interest in what people are doing to stay ahead. If you listen enough, you'll start to see the trends. It is how you take those forward and make it something new for a client that can help them.

Capelin: *So, how do you get people to shift gears?*

Banning-Wright: The hardest part in shifting gears is to get people to realize that their contribution and their ability to help is the most important thing that they can do for their client. Sometimes people get a little insecure and think that the client is helping us by hiring us. The first thing they have to do is get rid of that attitude. Give them enough data about a trend, here's what client x said and here's what another client said. Give them the data, and then they can start brainstorming about what we have to do to be different in order to take advantage of

that market, or that change.

Capelin: *You think that a very good place for an engineer or architect or design professional to be is a thought leader. How do you make someone into a thought leader? How do you become one?*

Banning-Wright: You can become one by understanding your client's business in a bigger, broader business sense. It wouldn't be enough to learn about Warner Brothers, for example, you need to learn about Warner Brother's business operations. When we start linking what we do to your client's businesses, we can be helpful.

We have to see ourselves as experts, and then come up with an opinion, a perspective, an attitude about what we see going on and what our clients should be looking at. We have to do our homework. We have to make our information relevant.

Capelin: *Could you spare an example of thought leadership at Syska?*

Banning-Wright: The whole attitude is that if you're building a hospital, where do they make the most money? How does patient's insurance work? How does all that impact what you might be designing into a facility? You have to know those things.

Capelin: *Speaking of the recession you have a lot of people whose spirits must be sagging. How do you keep their spirits up?*

Banning-Wright: The good news is our spirits aren't sagging. We have to do things that in a normal time we don't have time to do. I have to be able to look at the partners and ask who has the best relationship with this client. How can we get in and share more? How can I make you better? How can I learn something from the industry that I share with you that can make you more powerful when you go out to talk to clients? A lot about what we're doing is coming together more, and relying on one

another, using each other. It has worked incredibly well, and it is incredibly difficult.

Capelin: *How do you pick clients, and do you pick them differently in a recession?*

Banning-Wright: We look hard now, even more than before, at what our distinctions are, and see where those distinctions can make the biggest difference. A lot of our clients have no work, but we are sticking by them. Sooner or later things are going to change and I've got this time and an opportunity to introduce my client to others in the firm. Things can turn around and we're already up to the plate with the bat poised.

Capelin: *Do you feel that engineering services are being commoditized or perhaps even more so in this economy?*

Banning-Wright: I am worried that engineering fees are being commoditized. The whole design world is being commoditized and a lot of that is because of the absolute excess of what was going on pre-recession. As a group we weren't showing all of the value that we could show. It was just about getting the building up so they could open the door and turn on the lights. Our focus was on execution. When you focus on execution, you can't distinguish yourself as well as you need to. There was such urgency on behalf of the client that it was all you were afforded to do. We have to get our brains back in behalf of working for the client and behalf of the team. If we do that, then there's real distinction. If we're just about execution we will become a commoditized industry. There is a very important need for everyone to be growing in every organization and that is what is going to get America out of this. It is the spirit of action and teamwork for everyone at any level in an organization. They all have to get involved, they have to be pertinent and they have to have values.

For more Sound Advice, go to www.capelin.com and click on the Sound Advice icon on the home page. For more information contact Joan at jcapelin@capelin.com. □

"They all have to get involved, they have to be pertinent and they have to have values."

Denial

By Dennis Schrag

Hey, ostrich, get your head out of the sand!

Has your organization conducted a reputation study recently? Have you been ruthlessly realistic with your professional service firm? Do you know what your clients are saying about you?

Charles Fombrun, a retired professor of management at New York University, defines reputation as “a perceptual representation of a company’s past actions and future prospects.” A reputation study describes a firm’s overall appeal to its key constituents when compared with leading rivals. In essence, a reputation study identifies how key users of organization’s services compare the firm with other firms. For clients, their perception of your firm is their reality.

More than 300 management-level persons responded to an in-depth online survey in April. (The Longview Group completed the investigation.) All were members of the Society for Marketing Professional Services. More than 70 percent said their firm had not conducted a reputation study in the past five years.

Professional service firms thrive and die on their reputations. They are trust-based businesses. Failing to know how your clients perceive your firm is management blasphemy. If you don’t know how clients compare you to the competition, you are in denial. You would rather not know than know the truth. You are likely to continue making the same stupid errors that turn clients away.

Far fewer projects in the professional services industry in the past three years means intense competition. So why are firms failing to ask their clients what they do well and how they could improve? Richard Tedlow, professor of business administration at Harvard University has just published a new book, *Denial: Why*

Business Leaders Fail to Look Facts in the Face and What to Do About It. In it he writes:

Denial has always been a problem. What is different today is that the cost of denial has become so high. We are living in a less forgiving world than we once did. Convincing yourself that things are better than, or different from, what they really are is never prudent, and often disastrous. So the key is to be ruthlessly realistic with oneself.

The *Harvard Business School Working Knowledge* publication looks at Tedlow’s book and concludes that management “fact facing” is needed. The lessons from Tedlow’s book are:

- The time to deal with denial is right now.
- Facts have to be confronted, not avoided.
- There should be a climate where client and prospects’ truths can be studied and acted upon.
- Listening is essential.
- Words matter; when words are used to confuse, denial may be near.
- It is critical to discover the truth and listen to the truth.

According to legend, ostriches bury their heads in the sand as a way to avoid danger. But there is no scientific evidence that proves they bury their skulls. One possible source of the “heads in the sand” buzz could be a scientific fact. When threatened, the ostrich will fall forward in the sand and lay its head to the ground, so that its body will resemble a bush to passing predators. To an observer, it may look as though the ostriches bury their heads in the sand. There is a mind-bogglingly-stupid corollary to the head-in-the-sand-legend: “If you can’t see it, then it can’t see you.”

The Longview Group investigation on reputation studies, Tedlow’s book on corporate denial,

and the ostriches point to a dismal conclusion: Failing to know, methodically, how your clients and prospects perceive your organization is like falling forward on the ground and waiting for the threats to go away. You could be stretched out a really long time.

One more fact about ostriches: When they are up, motivated and running, they are among

the fastest flightless birds on earth. They can substantially outpace any threat or predator. □

Dennis Schrag, Ed.D, CPSM is president of *The Longview Group* (www.longview-group.com). He is on the faculty of the University of Iowa Tippie College of Business. Contact him at dennis@longviewgroup.com, or 866-351-6510.

A Vision of a Sustainable Future

Lou Marines' new book *The Language of Leadership*, that looks at A/E/C services with insightful essays and case studies, shows us a unique case study of a firm that is at the forefront of the sustainable design movement.

Architecture firm Perkins+Will had made publicly available an online energy estimating tool that assists project teams in setting energy goals for their buildings in support of the AIA 2030 Commitment (mentioned in last month's *Principal's Report*).

The 2030 Commitment asks firms to develop aggressive action plans and implement steps that will advance the goal of achieving carbon neutrality in buildings—both new and existing—by 2030. AIArchitect also stated that buildings use 76 percent of the electricity produced in the United States and through that energy use, construction processes and ongoing maintenance, contribute an estimated 48 percent of greenhouse gases.

The 2030e2 Energy Estimating Tool (<http://2030e2.perkinswill.com>), created by Perkins+Will, allows users to set target goals in four key areas: energy efficiency, green power offsets, onsite renewable energy, and grid-supplied renewable energy. These goals are available for both new construction and retrofit projects, and the tool can be used repeatedly to test 2030 compliance during the entire life of the project.

Perkins+Will Senior Associate Doug Pierce said, "The firm is committed to meeting the 2030 Commitment and has proactively built the estimating tool to support our designers as they strive to achieve these reduction goals. We created an easy-to-use tool that would help us set energy goals to comply with all aspects of the design phase and meet the benchmarks of the 2030 Commitment. The data it provides are highly useful, so it made sense to us to make this tool publicly available for everyone's benefit."

Not only has the firm made the tool available, but it has published its *Green Operations Plan* outlining the firm's implementation strategy for "achieving significant reductions in its environmental footprint with the ultimate goal of being 'restorative.'" A second working plan being used is its *Sustainable Design Initiative Strategic Plan*, in which the firm outlines how it will reach the 2030 Commitment.

The leadership lesson

Perkins+Will's leaders have established a compelling vision of the firm at the forefront of the sustainable design movement and have supported the expression of that vision by developing a strategic culture and an infrastructure to implement it.

The firm is taking many avenues of action:

- Initiatives within the firm's own facilities and operations to increase sustainability.

- Changes to project processes that work toward reducing their projects' carbon footprints.

- Setting specific goals (such as the number of LEEO-certified staff and projects) and meeting them.

- Developing and advancing knowledge in sustainable design.

- Sharing that knowledge and expanding the understanding of both clients and design professionals.

Perkins+Will documents its commitment to sustainable design, entrepreneurial spirit, creativity, and passion as firm's goals, as

well as the process required to achieve those goals. By making its software available to others, Perkins+Will not only gains a network of similarly committed firms and individuals, but the database of information about sustainable buildings will grow and become more useful to firms as time progresses. The firm gains valuable knowledge and connections through its behavior as a classic learning organization. □

The Language of Leadership: Stories and Studies in Courage, Wisdom and Sacrifice. Louis L. Marines, Hon. AIA. Greenway Publications. For more information contact jgaboury@greenway.us.

As A/E Firms Widen Target Markets, Risks Climb

The current economy is not only draining revenues from architects and engineers, it may be increasing their professional liability risk. This is the claim of Jerry Sullivan, global product leader for Beazley Insurance (www.beazley.com/A&E).

Approximately 60 percent of the A&E design firms that responded to a Beazley poll cited maintaining sufficient revenue to avoid staff layoffs as the most critical challenge they face in 2010.

Staff reductions are major risk management red flags, as they leave a firm stretched thin and therefore more prone to making mistakes in their documents. Another adverse effect is that former employees may be making the rounds of competitors and are potentially vulnerable to sharing sensitive prior client/firm information.

There is another risk that firms now face—privacy liability—as data becomes more dispersed and more portable, increasing the risk that it can be lost or stolen. For example, a professional laid off by one firm and moving

to another, may share the former employer's information with the new firm that had been protected under a confidentiality agreement. Or a company laptop containing sensitive financial information may be lost or stolen while traveling.

To keep revenue flowing, many architects and engineers are taking on projects outside their traditional realm of expertise and comfort zone. Some are taking smaller projects they would have passed up a few years ago. They may let contract language slide and kick off projects before all the provisions have been approved. As with many other lines of business, now is not the time to make risk management cuts that may prove to be false economy. Some insurers offer complimentary contract reviews as standard fare, as well as other venues for getting practical advice on using proper documentation practices to mitigate risk.

A depressed economy brings out the worst in most everyone. Clients are more likely to sue in such a climate, even those with whom a firm has enjoyed a long, productive relationship in

the past. They also may look for ways to stop payments on outstanding bills by looking for anything wrong on their projects that might trigger a liability claim. It's been said that owners, strapped for financing, look to errors and omissions insurance as a source of funds, realizing that most claims are settled through negotiation for payment instead of going to trial.

A depressed economy is also a blueprint for disaster at design firms and risks can soar as a result of the following activities, according to Sullivan:

- Taking on projects outside their comfort zone or expertise.
- Letting contract language slide, such as accepting indemnification language in an own-

er's contract that they wouldn't have accepted previously. Conversely, other experts suggest putting in stricter indemnification clauses in the A/E's contract and letting the client negotiate them out.

Keeping the revenue pipeline flowing will remain a struggle as economic challenges continue. Firms will try to balance the desire for new business with the need to effectively manage risk. One effective technique to spot questionable trends in client behavior is to use a system of continuous client feedback throughout the project delivery stage and document all client meetings to make sure that the client and everyone involved with the project is totally satisfied with your performance. □

Five Ways to Ensure Irritating Your Client

The last thing a design firm principal needs today is an unhappy, annoyed or irritated client. The actions are usually just the result of inadvertent oversights of simple things by busy executives, and are easy to correct or mitigate. Some of the grievous annoyances that clients say bother them include the following:

1. Slow response to phone calls or e-mails. Control the expectations of clients by establishing a reasonable policy on returning calls or e-mails, and stick to it.

2. Ignoring staff-to-client incivility. Remind staff often of the importance of a positive attitude and empathetic client service.

3. Not delivering on performance. Be realistic about what you can accomplish and don't make promises you can't keep. The underpromise and overdeliver tactic works best.

4. Falling short of an expected outcome. Clients hear what they want to hear, so clearly document your advice to clients on what the expected outcome of any action should be.

5. Not communicating during periods of inactivity. Share project status often to assure clients of the cause of delay and when things expect to move forward. □

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A Checklist for Considering New Services

Growth can be expressed in many ways; increased size of the firm, increased profits, opening of branch offices with geographical expansion. However, one of the most common strategies today is the addition of new services within an existing client base.

(See article on page 2). Determining exactly how, when, and where to adopt new services and/or diversify into other market sectors is a critical decision. This checklist can help stimulate a discussion of the advantages and disadvantages of such a move.

- Historically, who are the leaders in our industry and discipline and what are they offering that we are not?

- Do our clients see us as being specialists?

- Does our staff believe that we are specialists?

- Would it be beneficial for us to conduct a client image survey to ascertain if our clients or staff have a different understanding of the nature of our reputation, or ability for specialization?

- How much business could we potentially lose due to a perceived specialist reputation?

- Is there any part of our business or client base which we might lose if we tried to change or alter a specialist reputation?

- Is there any possible change to our present services that could be dictated by clients, regulations or other developments over the next five years?

- What services could we offer in addition to those we presently provide without the necessity of adding additional staff?

- Considering our present cadre of services, what would be the next logical development to add to our capabilities?

- Is there a demand that we could supply which we are not now exploiting due to our lack of inhouse experience?

- Is there a service that we are asked for

more often than those which we already provide?

- What would it cost, and when could we be ready to offer a new service?

- What would we need to provide or sacrifice to introduce such a new service?

- Would our present image in the marketplace, client acceptance or profitability be affected adversely by diversification?

- If we wanted to expand or diversify would our staff be able to handle the extra workload?

- Do we want to just expand our services or truly diversify into other market sectors?

- Why should we diversify and what goals would it accomplish for us?

- If we do not diversify or add new services, how could it affect us five or ten years from now?

- If we do diversify, what five-or-ten-year projection of costs, profits, and growth would we predict?

- Do we have the relevant knowledge or advice to evaluate the long-term affects of diversification and/or continuing to offer what we do now?

- Is there an obvious gap in our present services which our competition has filled?

- Who evaluates changes in supply and demand market situations for us, and is our present system adequate?

Increasing Margins

CONTINUED FROM PAGE 1

The panelists are from Canada, Brazil, Spain, and the United States and have plenty of expertise and advice to offer on this new paradigm. They have served in the capacity of financier, contractor, operator, concessionaire, and owner. They offer examples of where they see opportunities, a snap-shot of the free marketplace today, some successful ventures that they've been involved in with lessons learned, what they believe it takes to get a deal closed in today's environment and the risks that need to be addressed.

Michael Della Rocca, group board director and president, North America Halcrow

As we look at the P3 market, we can see that the long-term drivers for the P3 project delivery method are still very viable. There is without question an increasing global need for infrastructure investment whether it's to spur economic growth to developing regions around the globe or to replace our aging assets.

We still see strong competition for scarce sources of funding. We see investment capital that has been accumulated and seeking projects with attractive long-term returns. We see private-sector efficiency in the delivery and operation of projects, coupled with an increasing public-sector acceptance of performance-based contracts. We see global credible players with a documented track record of project delivery and informed project participants eager to look at opportunities to properly allocate the risks associated with P3 project models that have been employed around the world.

"We see investment capital that has been accumulated and seeking projects with attractive long-term returns."

But there is no disputing that in the short term there are challenges associated with seeing P3 moving into project delivery around the world, particularly in the United States. Here we see uncertainty about funding programs for infrastructure development, particularly in the transportation sector. There is a lack of an overarching federal framework with consistent implementation of P3 projects. There are 50 different states with varying degrees of political support and execution capability for projects seeking to be deployed in a P3 model. Virtually every state has some sort of significant

financial challenges and in recent years there have been a short number of projects that have successfully closed. Two major projects were initiated in 2009, and one in the early part of 2010.

Yet with those challenges, we see many agencies actively evaluating P3 as another tool in their arsenal to make P3 opportunities happen, such as projects in the New York region being considered by the Port Authority of NY and

NJ for replacement of some major bridges and out on the West Coast in the Los Angeles region where the MTA is looking at a portfolio of projects and evaluating whether to move forward under the P3 model.

Conor Kelly, managing director of Scotia Capital's infrastructure group

There is a significant need for infrastructure development as population grows (\$190 trillion projected by 2030). P3 projects are not about ownership, they are not about privatization. They are yet another tool available to the public sector to deliver services. They are not

a panacea for all infrastructure projects and are not something to be feared by the general public. There has been misconception about public-private partnerships recently. They are there to provide a service, to make society better. Even before the latest financial crisis there was much concern over the obstacles. I've seen many P3 projects attempt to gain traction, yet fail, mostly from lack of political representation. Public-private partnerships will face a new challenge in the post-financial crisis.

They are more expensive

Why are they more expensive? Equity investment in infrastructure has gone up as a result of putting restraints on bankers. Previously there was capital available for most projects. Investors are generally looking for havens and better returns. The capital markets remain quite closed to infrastructure projects. There has also been a change in the appetite of the public sector, as it has moved from pushing more risk toward the investor to looking at a more equitable exchange.

The global financial crisis taught us many lessons. One of which is the fundamental principal that the party best able to manage the risk is the one to assume the risk. A large capital investment requires a longer paying period, therefore it's incumbent for everybody to work together to open up and help get access to long-term funding, whether it's institutional investors or others.

Why do public-private partnerships continue to grow?

There's clearly a need in the public sector for spending significant capital on infrastructure. However the public sector is not equipped to meet these needs. Tax dollars are going down, deficits are increasing and P3 projects can provide an alternative and efficient solution to the public sector. We are seeing significant growth in new P3 markets throughout Latin America. For

example, Peru has recently started a process of P3-based projects for its infrastructure. Brazil and Colombia as well. In Asia, Vietnam and Singapore use the process. So the outlook is positive. The need is very clear, and we can do a very good job in the future.

Jim Dougan, president, PCL Constructors Canada Inc., central and eastern Canada, represents the interests of both the owner, developer, and contractor on major complex projects, and all relate to the P3 market.

In Ontario, P3 is called AFP (Alternative Finance and Procurement). We've been involved in 15 projects to date (5 Billion dollars worth of P3 projects). You hear a lot about transportation projects leading the P3 way. The majority of ours have been more on the social infrastructure side, like health care projects and some transportation. Most are in Canada. The average project size is in excess of \$300 million, large, and complex projects, which makes them suitable for this type of delivery system. There is lots of risk involved and one of the important aspects of the P3 model is transferring risk to the appropriate party that can manage that risk.

When you look at the delivery models that we're using in our agreements, the first is the Design-Build-Finance-Maintain (DBFM) model (see diagram on page one). In this model most everything shifts to the private sector side, except for the programming and project specifications. It's typically for a 30-year term. The key is the government standing behind these projects. To make it a successful project it's really the flow of payments back to the private sector that makes them work most effectively.

When you look at the advantages of the model, there is appropriate risk transfer and there's cost and schedule certainty because of that risk transfer. There are clear roles, responsibilities, and governance due to the nature of the structure. Due diligence by the lender plays

a significant role in managing the risks. In the DBFM model payments are made monthly and linked to the availability and maintenance of lifecycle management.

There are more opportunities for design excellence and innovation in the DBFM model. It's a wholelife perspective where facilities management is integrated with life-cycle management so that at the end of the 30-year period of concession, the public entity is getting the facility back in the agreed upon hand-back condition. You can derive a lot of innovation from the private sector and achieve sustainable design, including renewable energy innovations and pain/gain share on energy consumption. Part of that risk is transferred to the private sector. It's really looking at the facility from an entire 25-to-30-year time scale.

"It's really looking at the facility from an entire 25-to-30-year time scale."

Some other considerations:

- P3 is a partnership. There is no room for adversarial issues if things don't work well. There's a lot at stake for everybody. This is an expensive proposition.
- Scope is critical. The key is to define what you want, give it to the private sector and get out of the way. If you make a lot of changes, it's very expensive and it won't be a good experience.
- P3 includes "soft" facilities management.
- P3 uses market-based performance standards.
- Environmental issues are challenging, particularly from a lender's perspective. It's hard to get financing if there are environmental issues that are transferred to the private sector that the public sector can't manage.

- Municipal approval process can be a challenge, such as site plan approval that depends on a municipality. That's a risk that is transferred to the private sector, yet they can't control the process in the municipalities that they're working in.

- Working in P3 is a paradigm shift for all participants, both public and private. On the public side this really drives up-front decisions and not everybody is used to that, and it also takes a lot of resources up front to get these projects scoped and defined properly.

There is a need to understand what you're getting into and make sure that the project is resourced properly. The private sector sees that this isn't just design-build and it certainly isn't traditional contracting. You need to have people who are very experienced and collaborative in the way that they work. It's very intense during the RFP process, and it's not for the faint of heart.

- Partner selection is also very critical. The projects are made up of consortiums. You have the developer, contractor, facilities management providers, designers. That team is only as good as its weakest link. You have to qualify for the project and win. Most firms are used to standing on their own. That isn't the case in these consortiums.

- Ensure that the procurement process is fair, open and transparent. We need to make sure that we understand the evaluation criteria and that it meets the project's objectives to make it worth going after.

- Chose your project wisely. The bidding costs are in the million dollars range.

Felipe Montoro Jens, CEO Oderbrecht Investment in Infrastructure, which has provided planning and controlling, corporate finance and project finance in Brazil, United Kingdom, and Singapore.

Another important role that infrastructure P3 projects play in various countries is that they can be privatized, be managed as the private sector entity and take some of the risks in order to get payments.

Infrastructure projects usually require large amounts of money. All the governments around the globe need the private initiative to help them bring together new partners, assess the capital markets and bring information to leverage a project. This can take many years if not properly structured from the beginning. Thus the role of private partners is essential to prevent an increase in public debt and to bring efficiency to the structuring process.

New challenges ahead

Despite the forward momentum and enthusiastic support for the P3 models expressed by the group, there are still questions that remain about P3s, such as: what standards define the design excellence that can come about using P3 and how do you go about achieving that? When you consider sustainability, what are the guidelines that would help a group achieve those goals? How do you identify the weakest link in an organization, and how do you know who to do business with and who not to? The answers will undoubtedly come as P3s become more commonplace as a preferred delivery method for those appropriate projects. □

Exercising Leadership

CONTINUED FROM PAGE 1

An industry survey of professional services organizations has shown that while 70 percent of firms indicate that retaining clients is “very important,” 77 percent responded that acquiring new clients was also “very important.” Such a dichotomy is not sustainable today when there are fewer clients to go around, and the costs

Key Concepts of P3 Projects

- Definition. P3 involves a contract between a public sector authority and a private party, in which the private party provides a public service or project and assumes substantial financial, technical, and operational risk.

Advantages of P3s

- Better services can be provided.
- Risks can be allocated between partners.
- Promotes more efficient management.

Innovation possible with P3 projects

- Could provide variable remuneration to the private entity, linked to performance.
- Guarantees are in the form of firm long-term receivables or assets with good liquidity, identified as low risk and free of political risk.
- Step-in-Right. This is a right that the lender or the public sector has, to interfere with the project if its not performing as it was established in the contract.

Main benefits:

- Analyzes in detail and mitigates project risks, which translates into more security for all participants.
- Future revenue of the project and its assets are guaranteed not to impact the limits of corporate credits.
- The distribution of risks is properly balanced among the participants.

Challenges:

- Structuring the “right” guarantee package, providing comfort to lenders.
- Obtain the necessary guarantees for projects in a market where the insurers have lost their liquidity and have increased costs.
- More stringent environmental requirements.

for acquisition are steadily climbing.

To compound the problem, the *Harvard Business Review* reported that businesses lose 50 percent of their customers every five years. In the A/E/C industry, if your firm grows and you get 20 percent more new clients and your client retention rate is 85 percent, your net growth is only 5 percent (20 percent minus 15 percent). However, if you can increase your retention rate to 95 percent, the growth

rate would have tripled, (20 percent new with only a 5 percent drop). Your net growth would have gone up 300 percent just by focusing on retaining more of your existing clients. That is why William R. Long, PE, LEEDAP, FSMPS, and president of Trinium Resources Group (www.triniumresources.com), feels that it is imperative to develop a consistent measurable plan to focus on maintaining as many of those hard-won clients as possible; that is, once you have decided on the value of each client to your organization.

"The 'behaviors' that you exhibit when you interact with your client is something you do day to day. It's a reflection of the corporate culture of your firm, and should be performed by everyone in a firm including the leadership, business development and technical operations staff. They should all be involved in the process," Long said.

The four client maintenance behaviors that individuals need to exhibit include:

- 1. Positive outlook** by always thinking about client expectations builds credibility and trust.
- 2. Adding value** enhances the trust and confirms the buying decision.
- 3. Constant communication** with the client and the entire client team also builds trust.
- 4. Continuous networking** strengthens the bond of trust.

Profitability increases over the life of a retained client

"You know your client," Long said. "You know that they take a long time to review shop drawings, so you practice patience. You know that they like various options to choose from in solutions to challenges. You can account for those things in your fees, and profitability goes

up," Long emphasized.

Here's Long's process to help you retain more of your clients.

Classify your "keeper" clients. As much as firms want to retain every client, this is not realistic or even desirable. At any time there will be those clients that are inappropriate, low margin, or otherwise bothersome. Identify the reasons why you want to keep them. You'll want to fill in the "knowledge gaps," information about those clients or organizations that you may discover by doing market research. Long suggests using what he terms "client mapping," to find out who your "keeper clients" are.

Keeper Clients

There are five criteria that Long uses to define keeper clients.

- (1). Range of success.** What have you achieved with that client? It could be geographic expansion for your firm, a new market sector, or a practice area in which you are most comfortable.
- (2). Profitability impact of the client.** Where is the money coming from, is it public funding or private financing? If it's the K-12 market, does a bond have to be floated? Who is investing in the project and what are the payment and contract terms?
- (3). Client preferences.** How does the client's culture mesh with the firm's corporate culture? On the construction side it may be a favored project delivery method. Does the client like using a CM or a lump-sum bid? If you're an MEP firm, does the client hire you directly or want you to be part of the architectural team and be paid by them?
- (4). Status of incumbency.** Are you the only one working for this client, or are there others and who are they? Is the client happy with the performance of the other firms?

(5). Typical project size. Do upcoming opportunities mesh with your firm's sweet spot? Is the project too small or too large? Is the number of opportunities you want to handle appropriate for your projected workload?

"These are all firm-specific," Long said. "For each of these five criteria you're going to develop your own characteristics, and define your client in each category as A, B, C, or D, or some other designation. By doing this you will get better fees and your services will be more efficient," he added.

Interview the keeper clients

Set up an interview process for each of the keeper clients on your list to determine their current expectations and challenges. Ask the following questions:

- What are the top three issues that your organization is struggling with right now?
- What is the strategy for addressing each of these issues?
- What are the goals that your organization wishes to accomplish in the coming year?
- In what ways could our services add value to your organization?

This is far different than a "client satisfaction" survey, this is a visioning process to determine how to service the client better, new services that you might offer in the future, and which would be considered as added value to those you already provide. You can then create a value-add strategy for each client, and add that to the information already gleaned from research.

Develop a client map

Have a senior level person gather the information, beginning with the primary internal contacts within the client's organization, as there are often multiple people making decisions

internally regarding the hiring of design firms. Find all the contacts that are appropriate over the period of your involvement. There is also a lot of "soft" information that can be useful in gaining a specific person's trust, such as schools attended, family details, participation or membership in community organizations and the like.

"A similar exercise is needed for all external contacts," Long pointed out. "They are the influencers from complementary firms that can impact the decisionmaking process. Get similar information on those people as well," he added.

Next in importance in the client mapping process is to define the current decisionmaking process within the client's organization. "You may have known all the characters when you were selected for the first project but over time the parties change," Long pointed out. "How do they make their decisions now, is it through a formal selection committee and selection process or informally?" he asked.

"Find out where the relationships lie with each competitor that may be working or have worked with your client in the past," Long suggested. "What is the tie, what is the link and how strong is it now?"

Develop the maintenance plan

A focused attack plan to retain and maintain a specific client is an organized process that utilizes the information collected in the client mapping process and advances it to a buying process, according to Long. The four stages of this process are: verifying name recognition, establishing credibility, creating trust, and getting them to buy into your services.

"To maintain that client, you may discover that you have additional decisionmakers that may not even know you are currently doing work for the company. They will need to go through that four-step process as well," Long pointed out. □

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