

2025 AEC INDUSTRY OUTLOOK

Key Insights to Shape Your Future

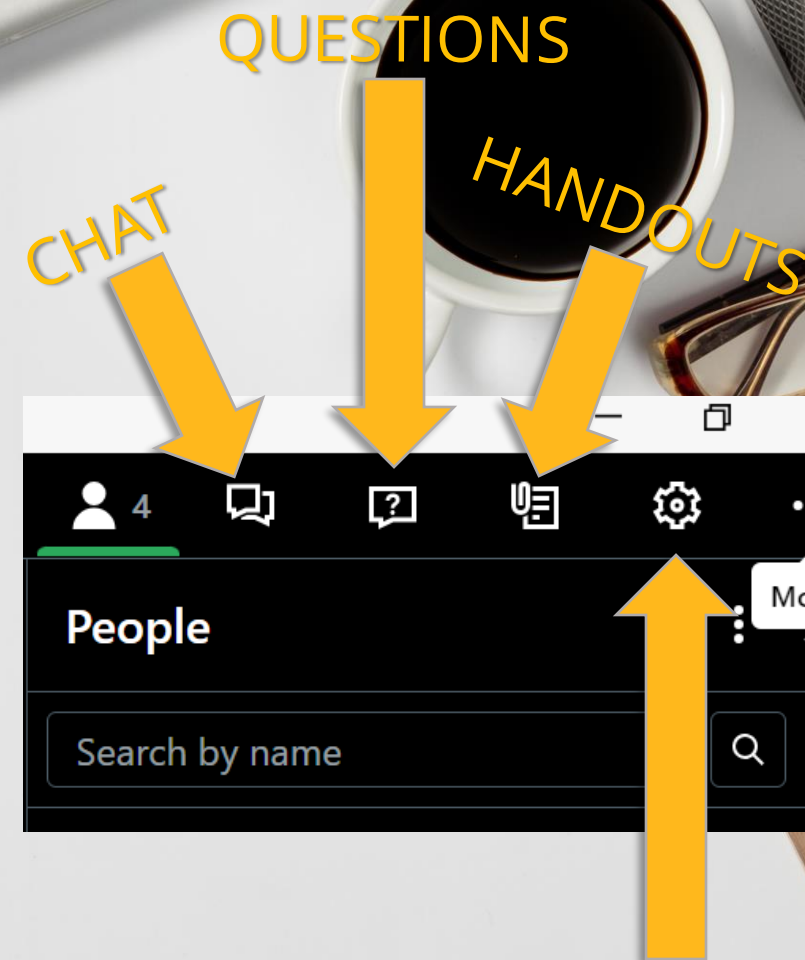
PRESENTED BY:

Scott D. Butcher, FSMPS, CPSM
Brad Wilson, CMA, MBA

Managing Director, Strategic Growth Advisory
Director, Strategic Growth Advisory

Housekeeping

- Chat
- Questions
- Handouts
- Audio Options in Settings
- Polls
- CPE
- SN Skills & Performance Institute – OnDemand
- Survey – let us know how we did!



SETTINGS
If audio is not
working, check
your settings
here!

Meet Your Presenters



Scott D. Butcher,
FSMPS, CPSM

Managing Director,
Strategic Growth
Advisory



Brad Wilson,
CMA, CDA, MBA

Director, Strategic
Growth Advisory

Agenda

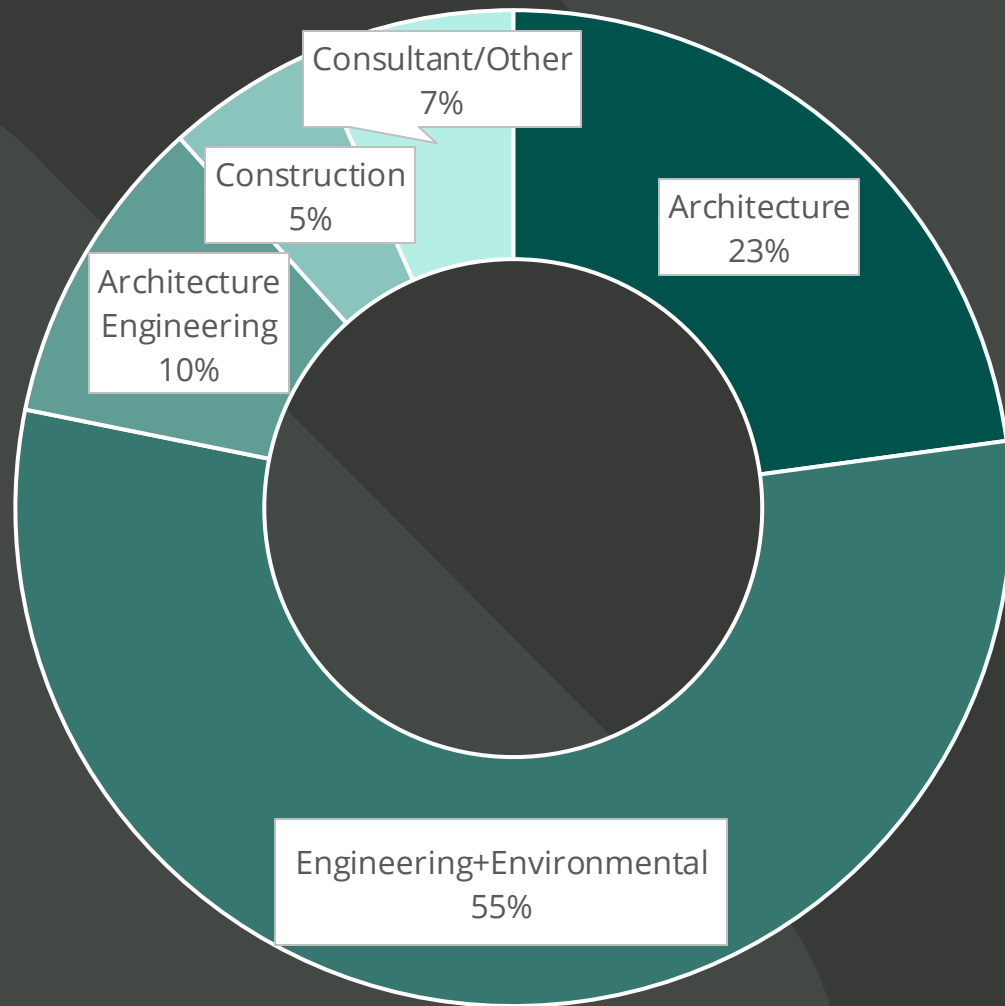
Study Overview

Detailed Findings

Managing Growth & Improving
Operational Efficiencies

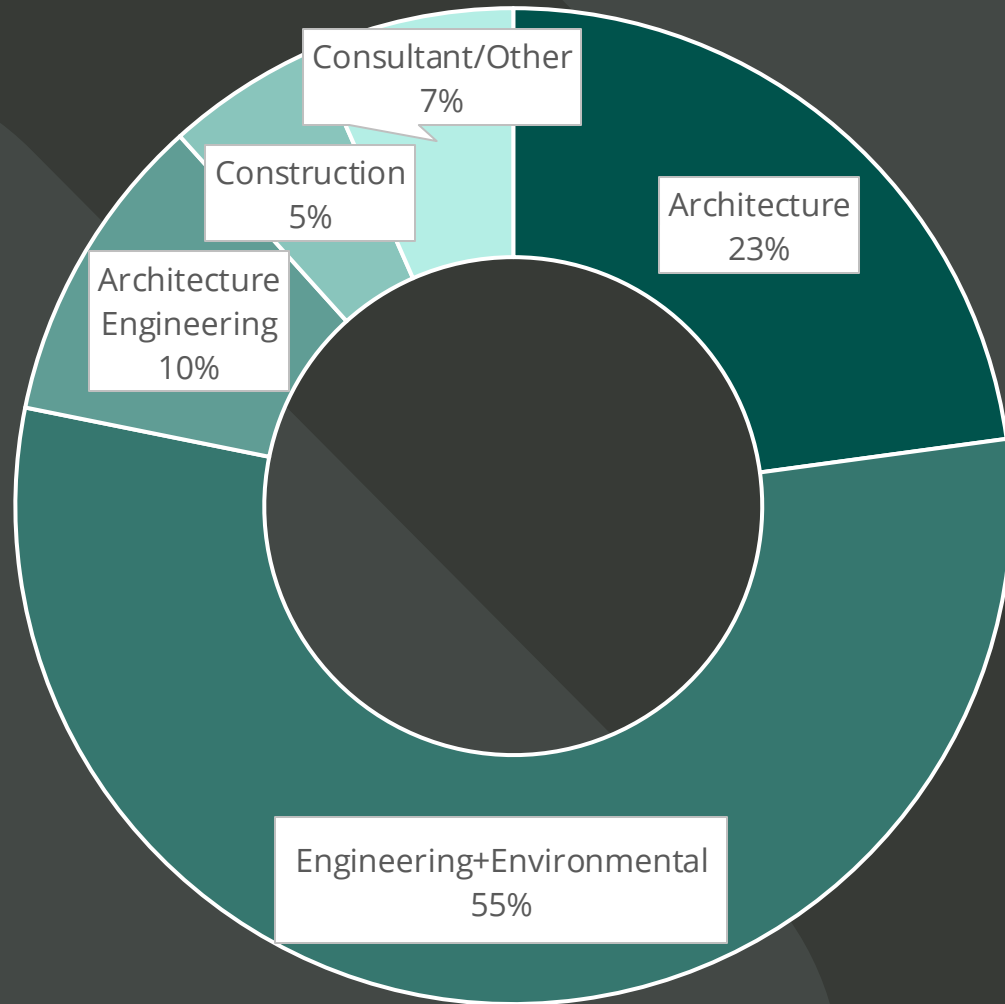
Firm Demographics

Type of Firm

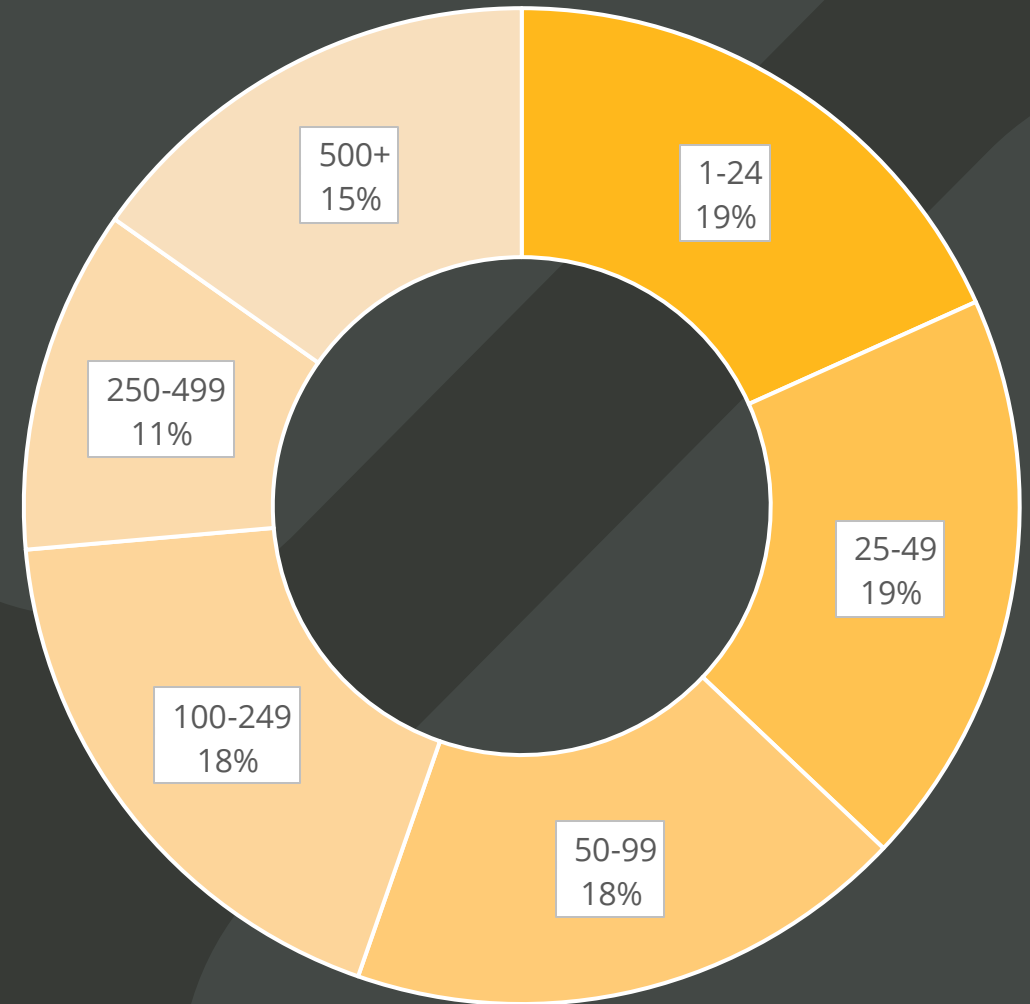


Firm Demographics

Type of Firm

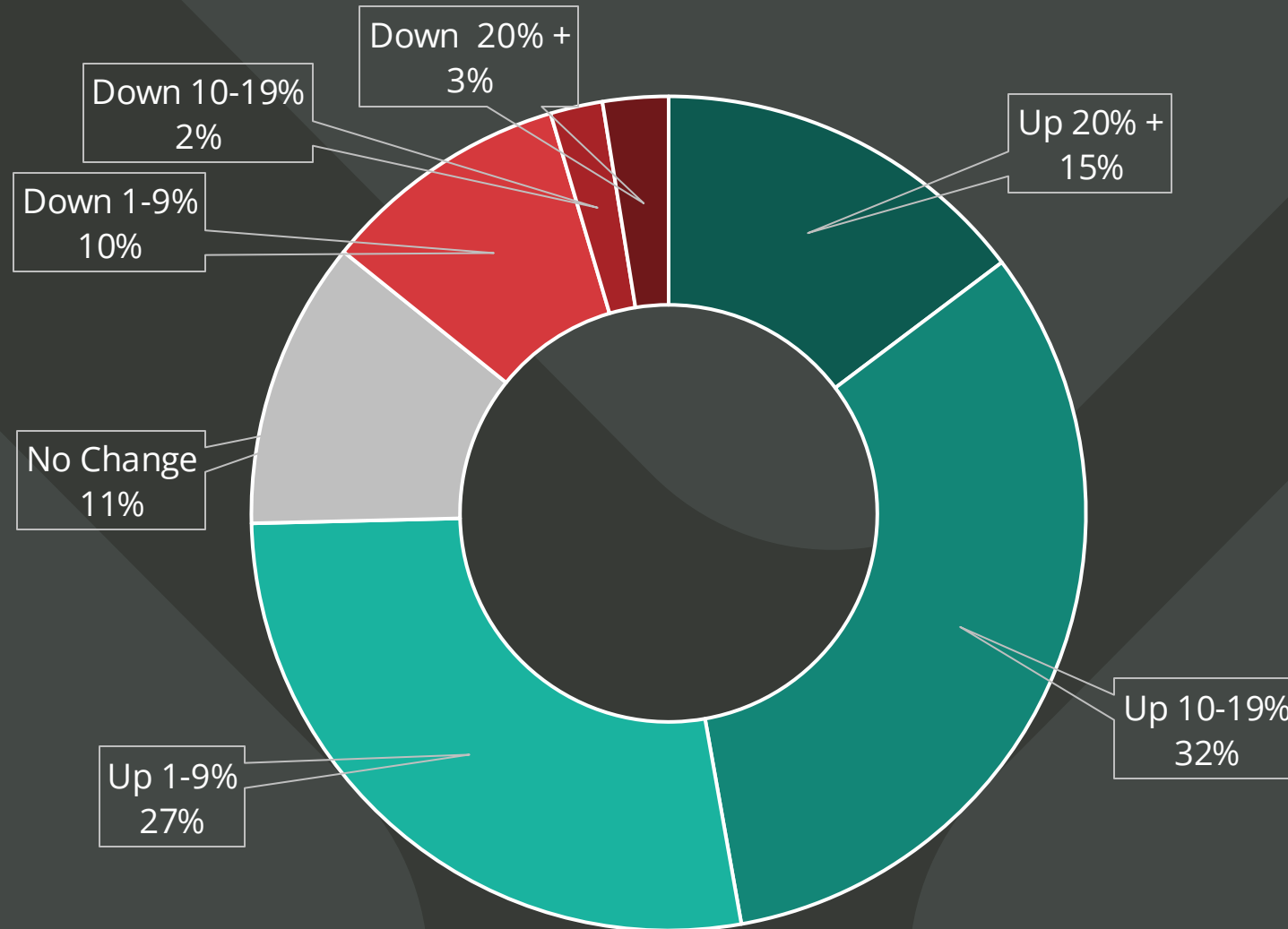


Size of Firm (Employees)



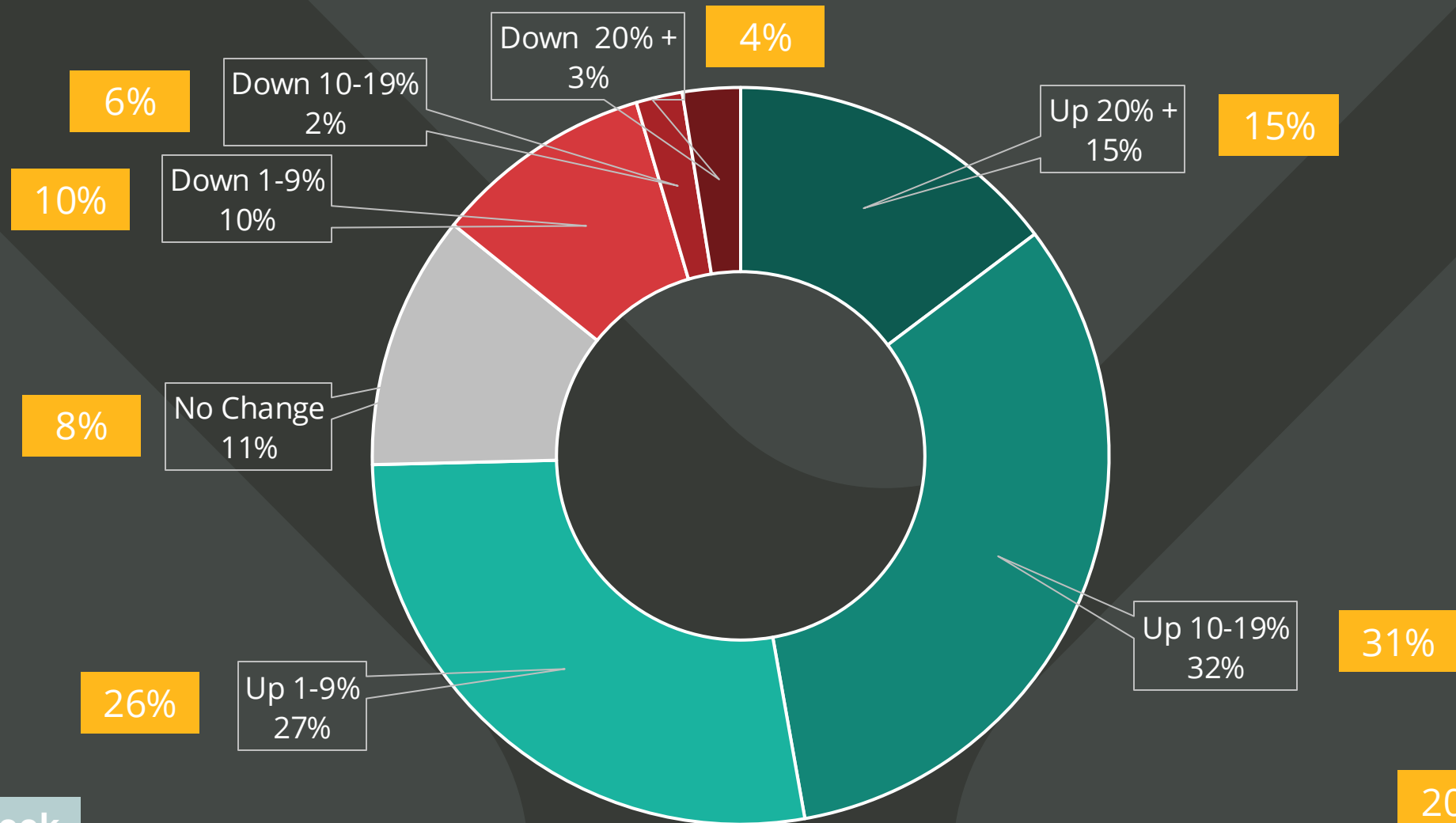
Year-End Expectations

Compared with 2023, how do you think your revenues will finish this year?



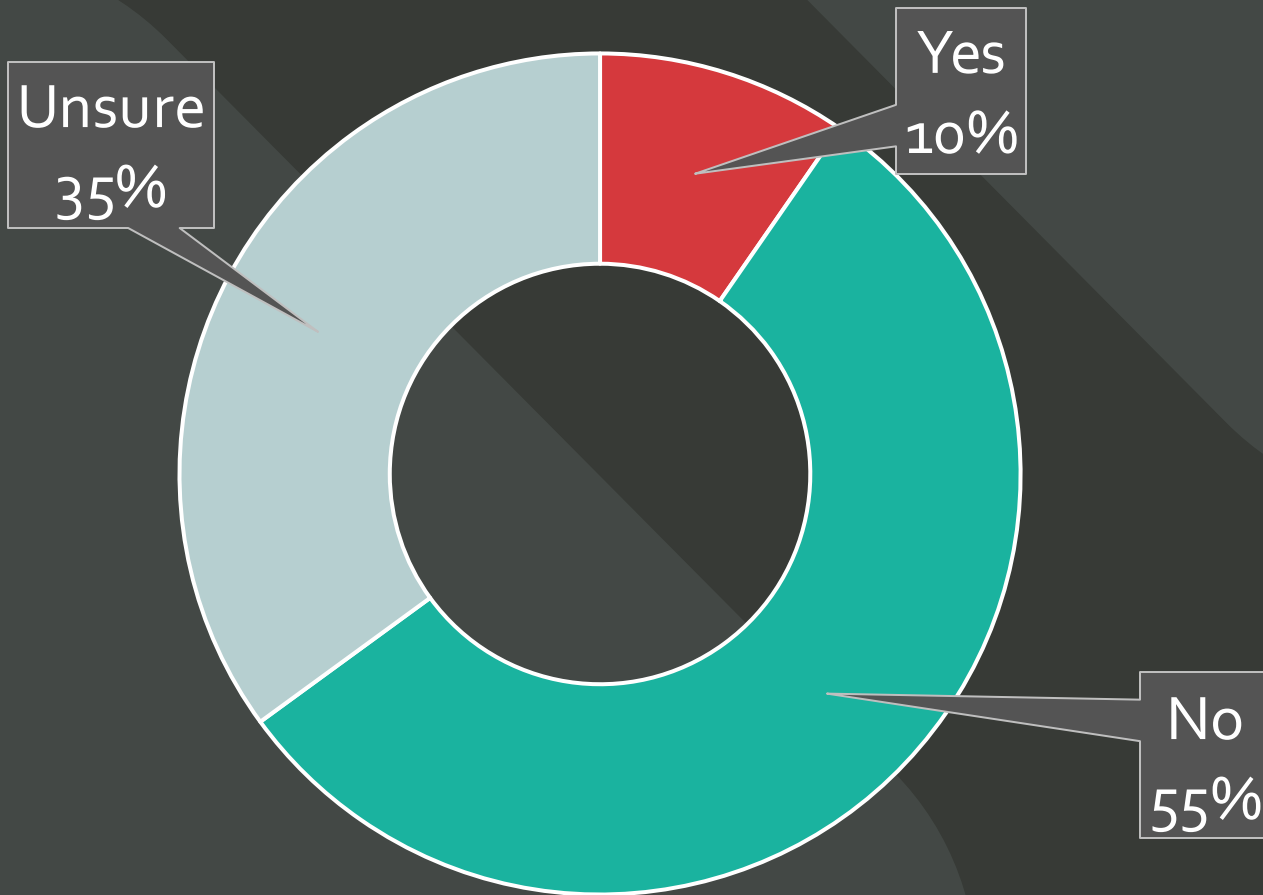
Year-End Expectations

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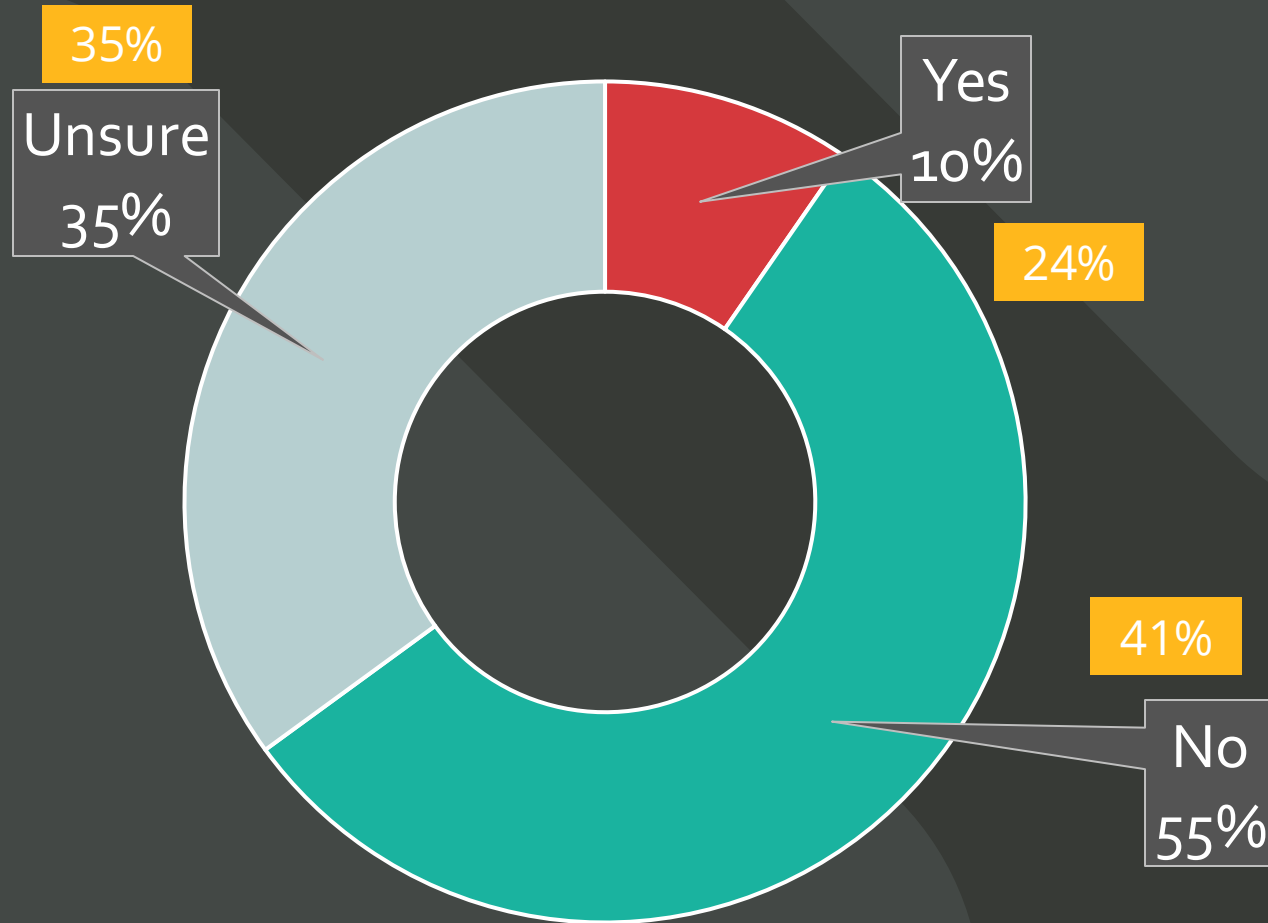
One-Year Outlook

Do you expect an **economic recession** within the next year?



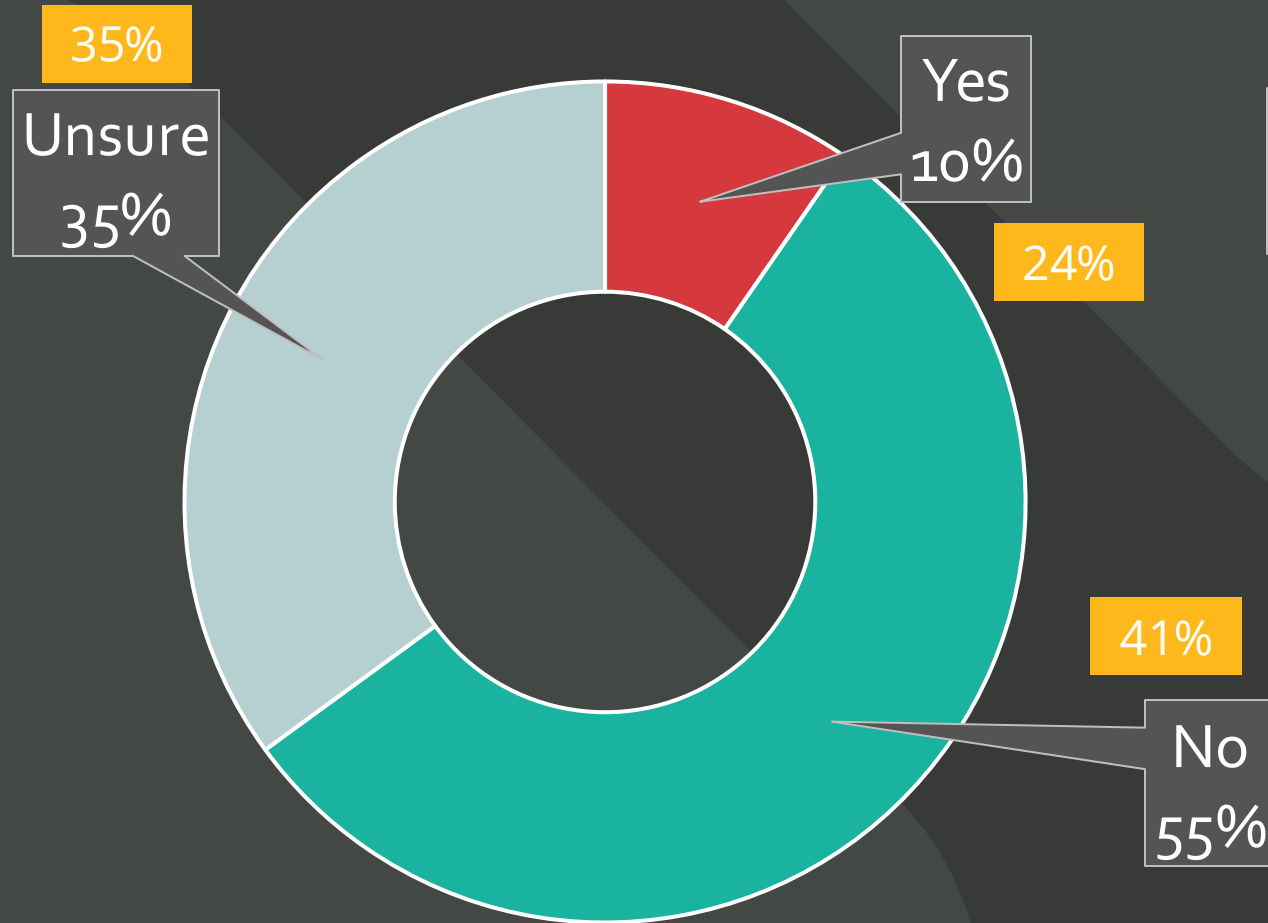
One-Year Outlook

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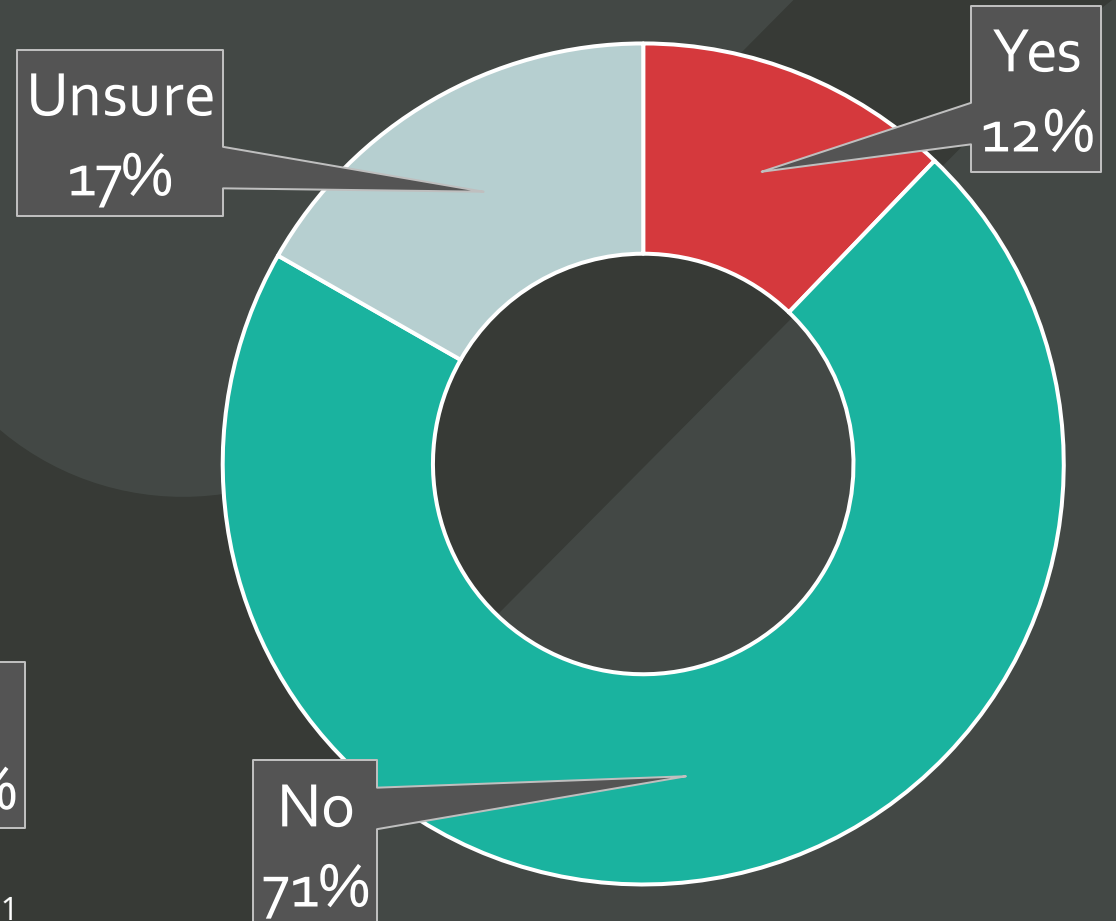


One-Year Outlook

Do you expect an **economic recession** within the next year?

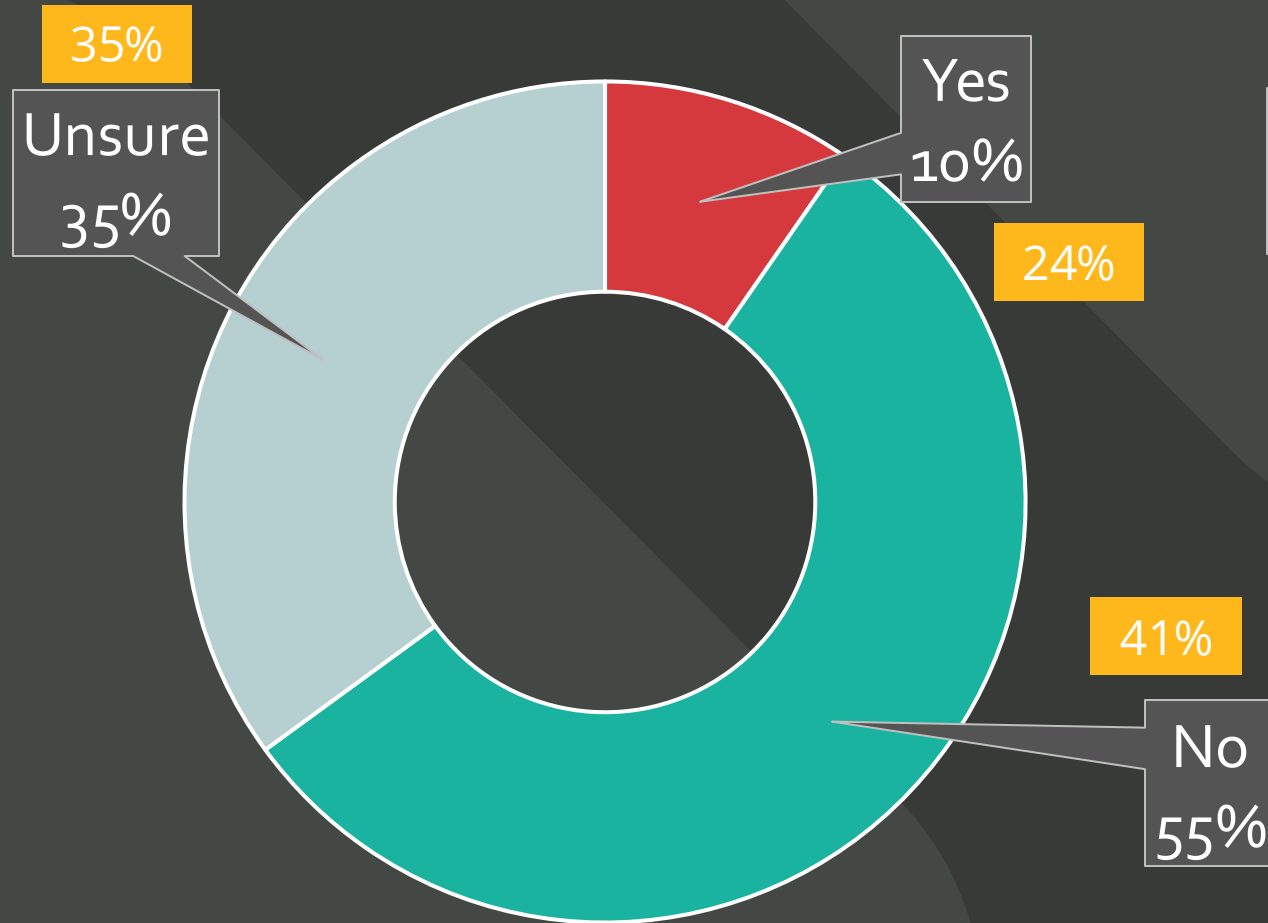


Do anticipate a **downturn** in firm revenues over the next year?

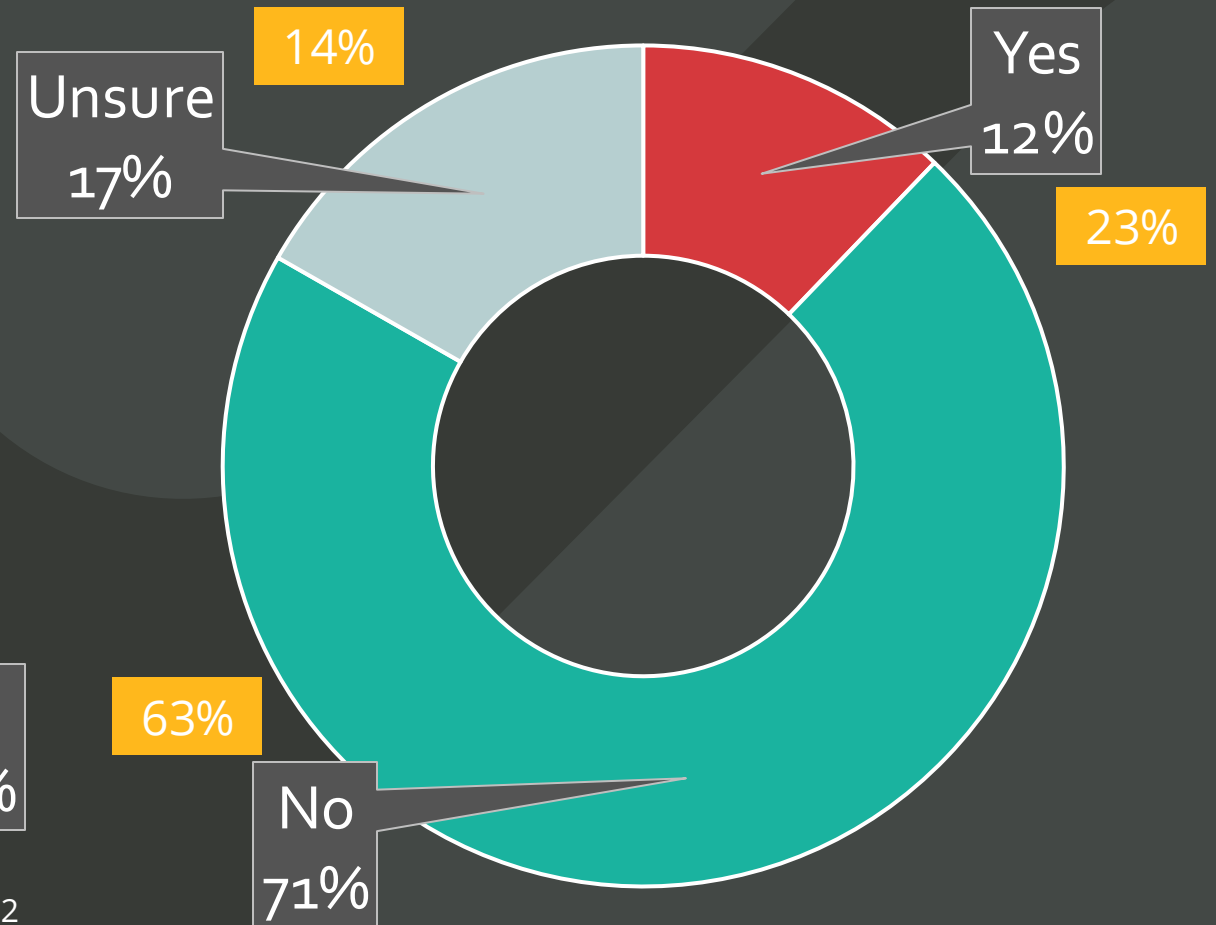


One-Year Outlook

Do you expect an **economic recession** within the next year?



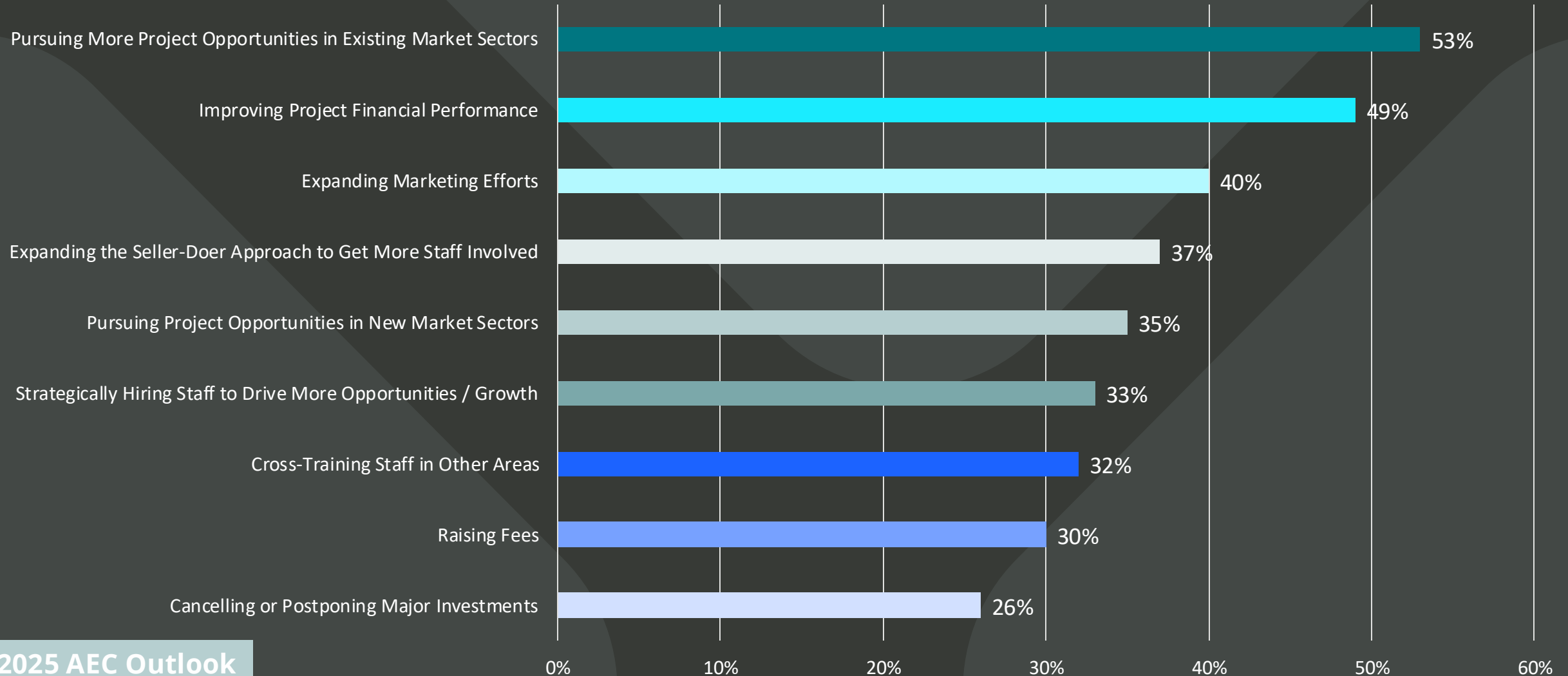
Do you anticipate a **downturn** in firm revenues over the next year?



Economic Downturn?

17%
of
Participants

What steps are you taking to position for a downturn?



Poll

Of the items listed below, which is your company's TOP priority for 2025?

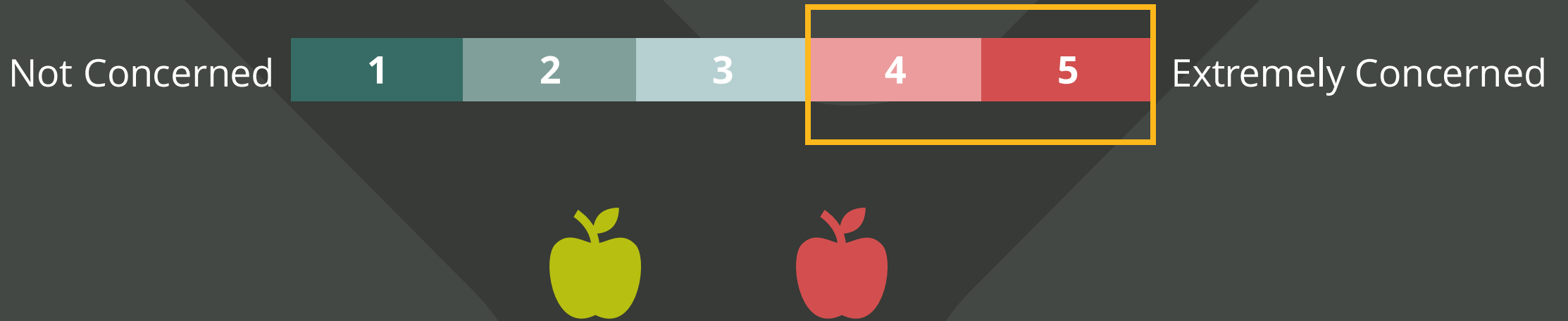
- Business Development
- Talent/People
- Growth
- Technology
- Other (Comment in chat)



Comparing Last Year's Findings

2024 Outlook: What are the greatest challenges facing your firm today?

2025 Outlook: Rate how concerned you are with the identified issues on a scale from 1 to 5...



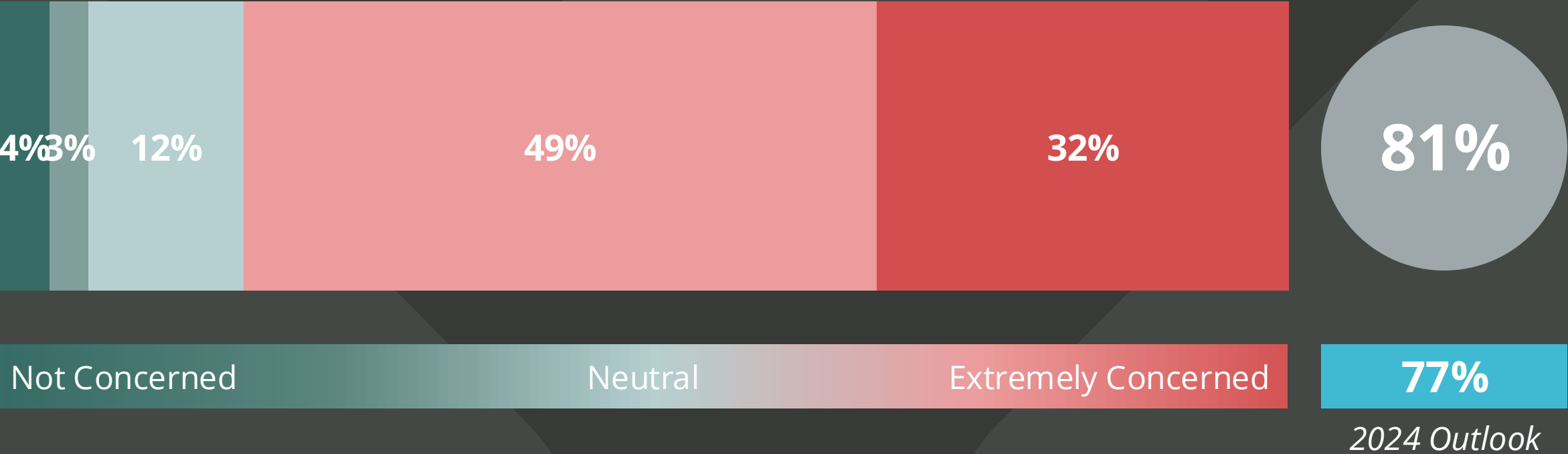
** Numbers may not add to 100 due to rounding*

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STAFFING ISSUES

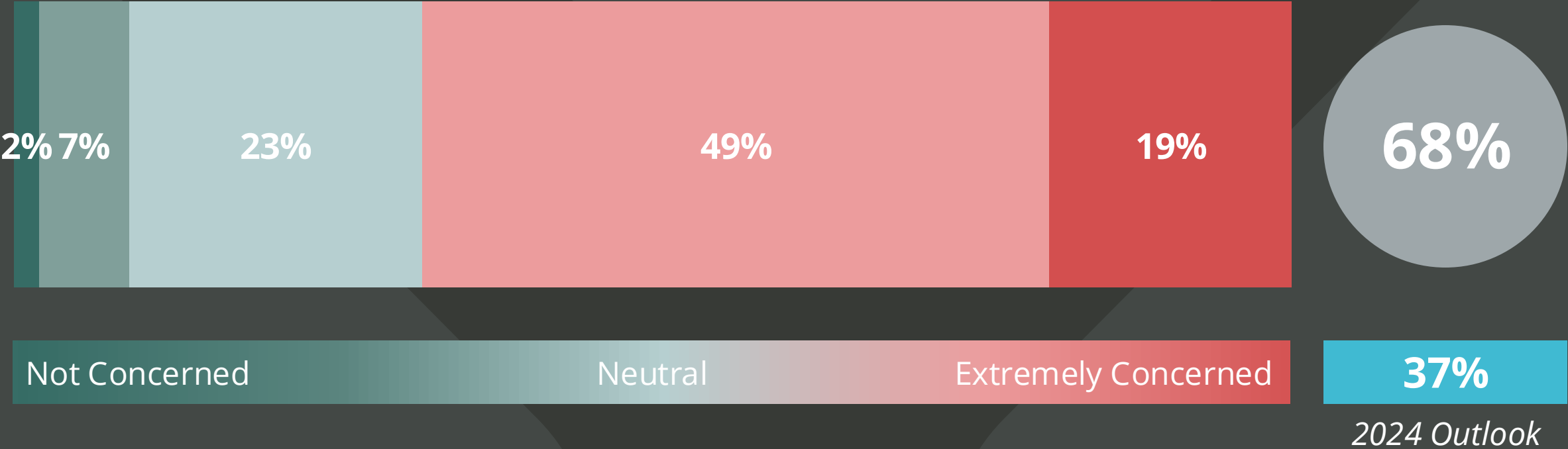
Recruitment of New Staff

Critical Issues Facing Your Firm Today – Staffing Issues



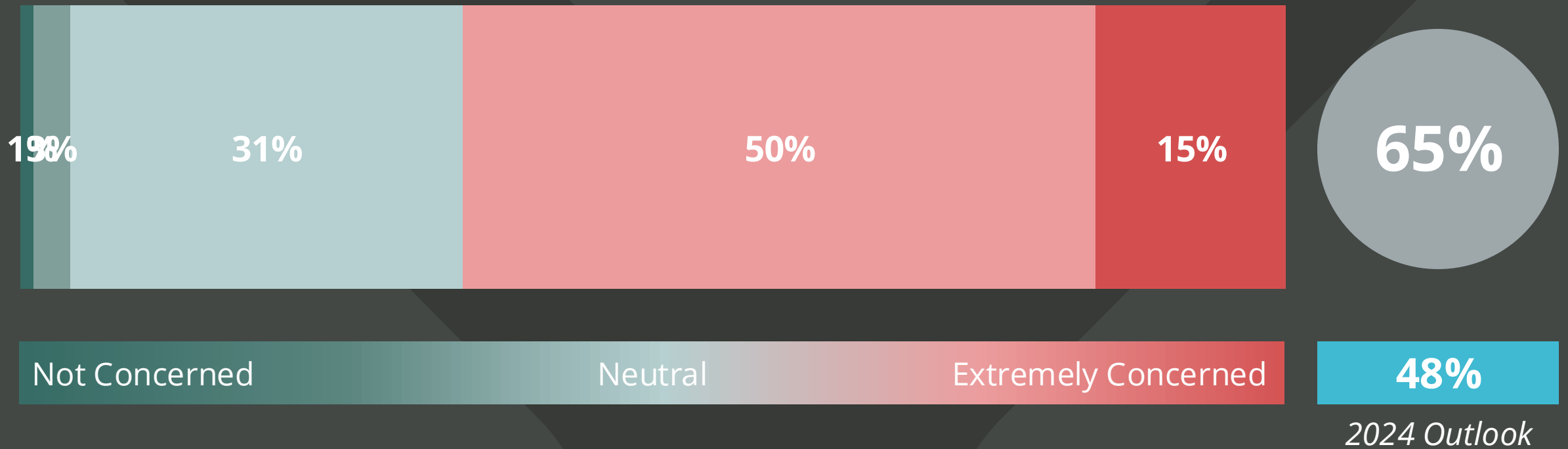
Retention of Existing Staff

Critical Issues Facing Your Firm Today – Staffing Issues



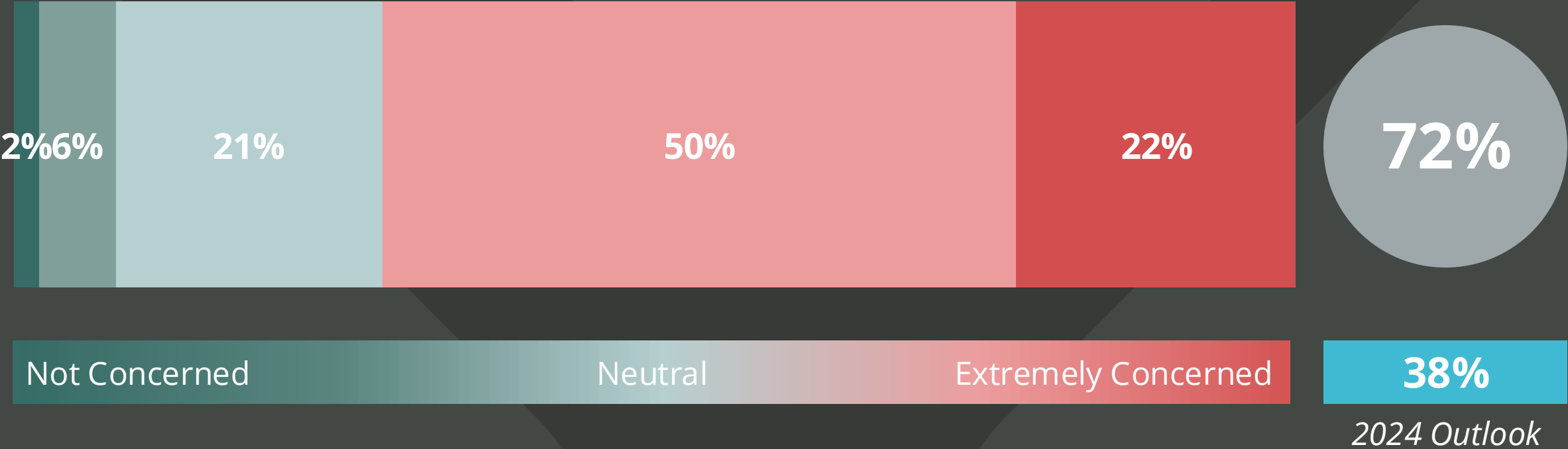
Wage Growth

Critical Issues Facing Your Firm Today – Staffing Issues



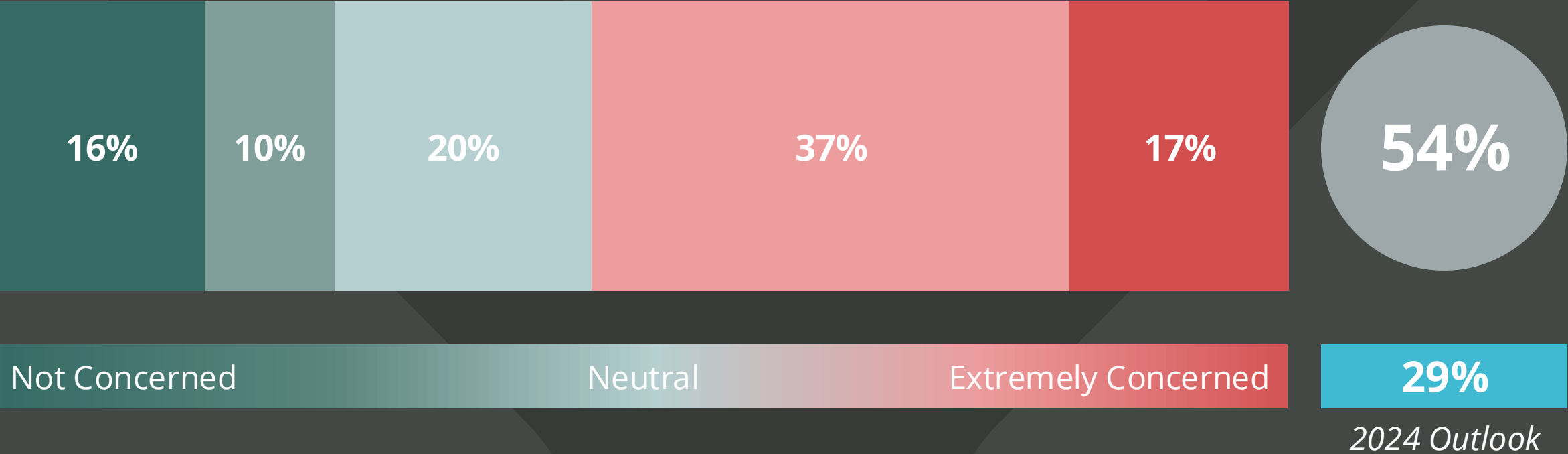
Cost of Benefits

Critical Issues Facing Your Firm Today – Staffing Issues



Retirement of Key Staff

Critical Issues Facing Your Firm Today – Staffing Issues

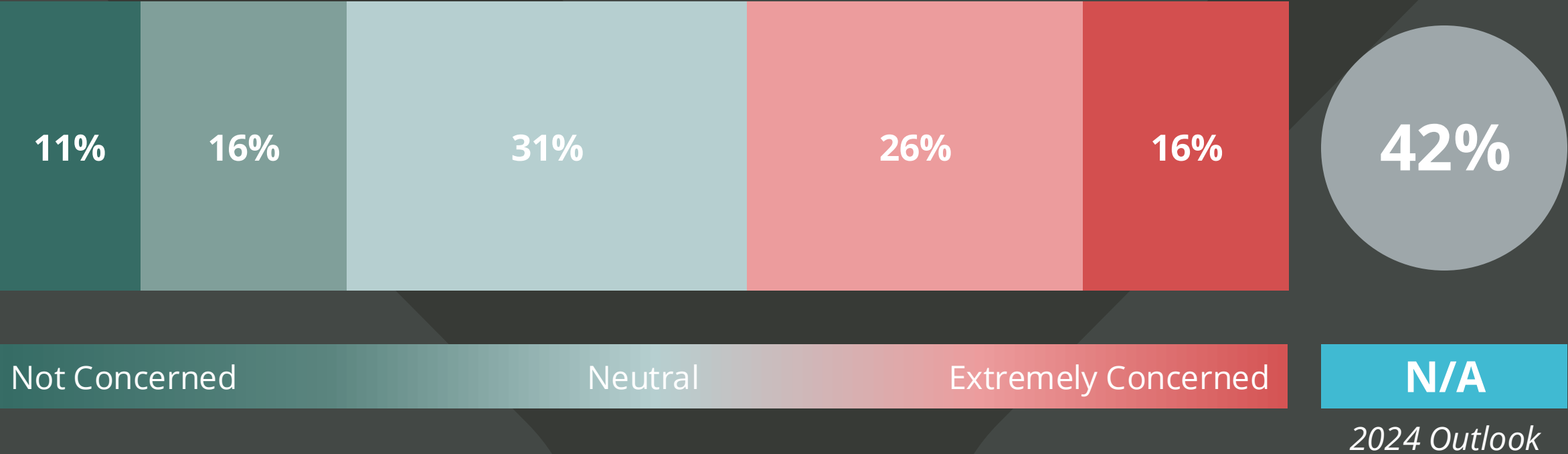


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ECONOMIC ISSUES

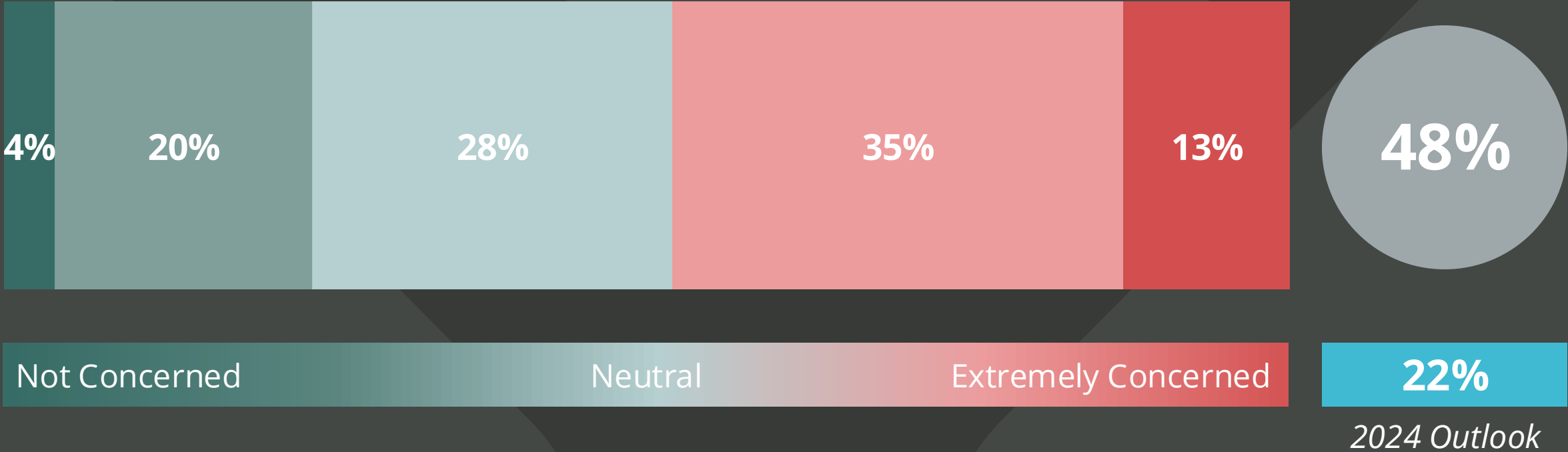
Economic Impact of Election

Critical Issues Facing Your Firm Today – Economic Issues



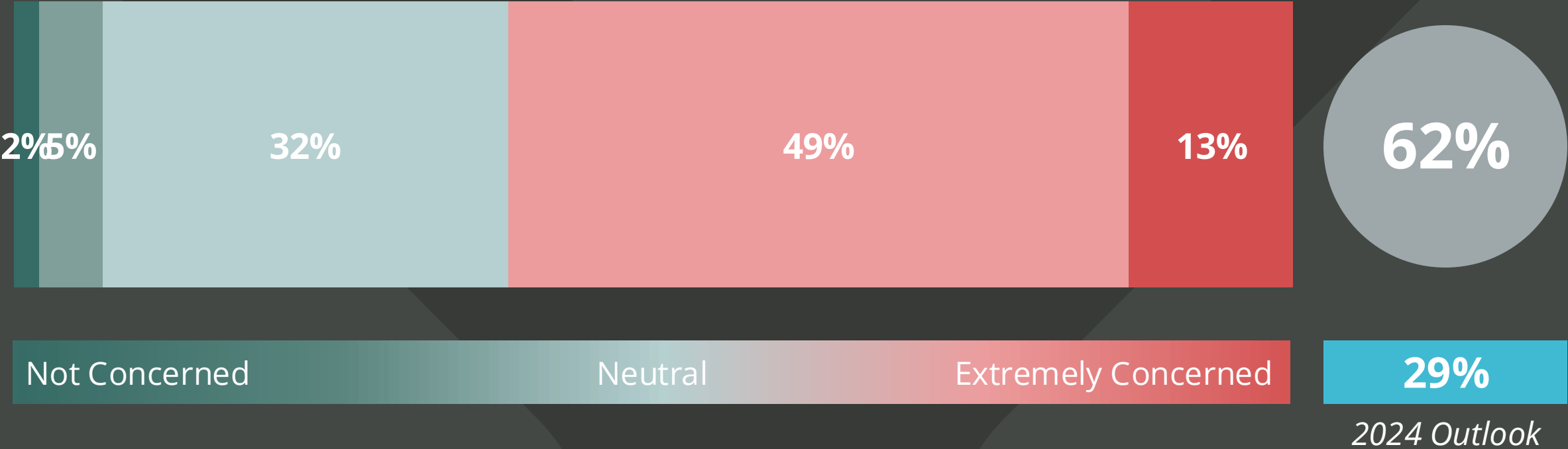
Ability to Obtain New Projects

Critical Issues Facing Your Firm Today – Economic Issues



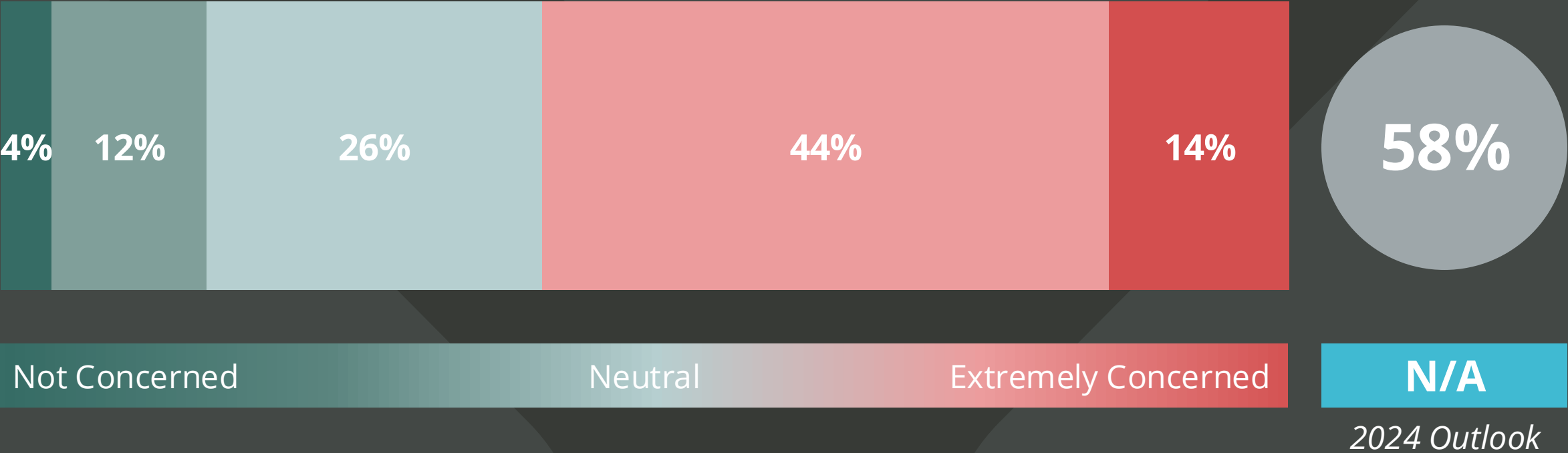
Inflationary Pressures

Critical Issues Facing Your Firm Today – Economic Issues



Continued High Interest Rates

Critical Issues Facing Your Firm Today – Economic Issues

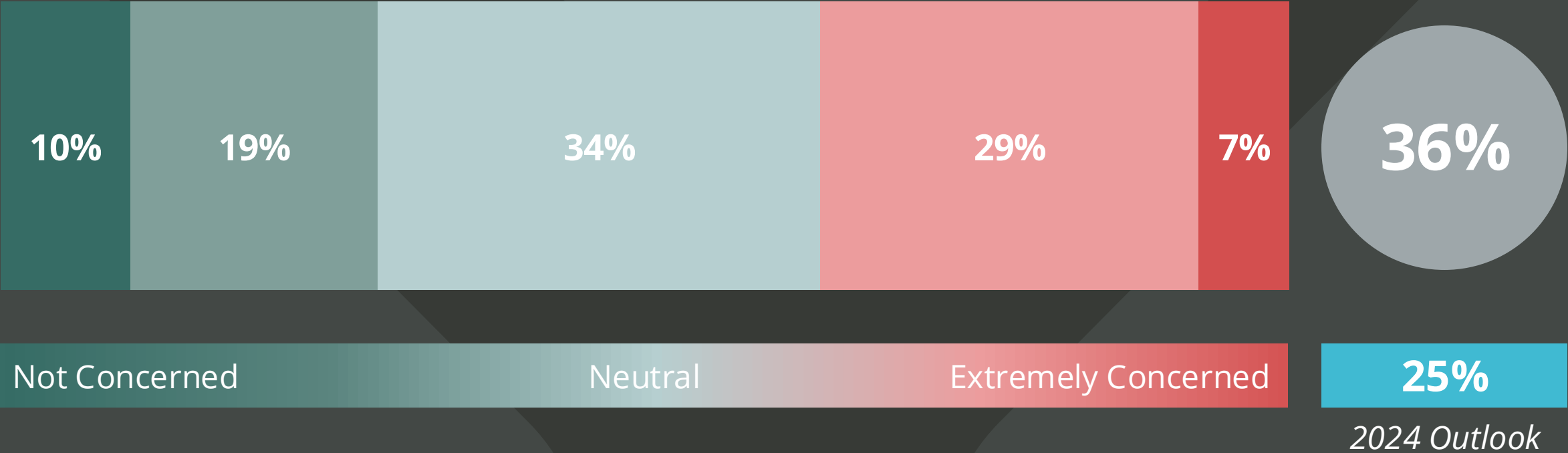


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PROJECT DELIVERY ISSUES

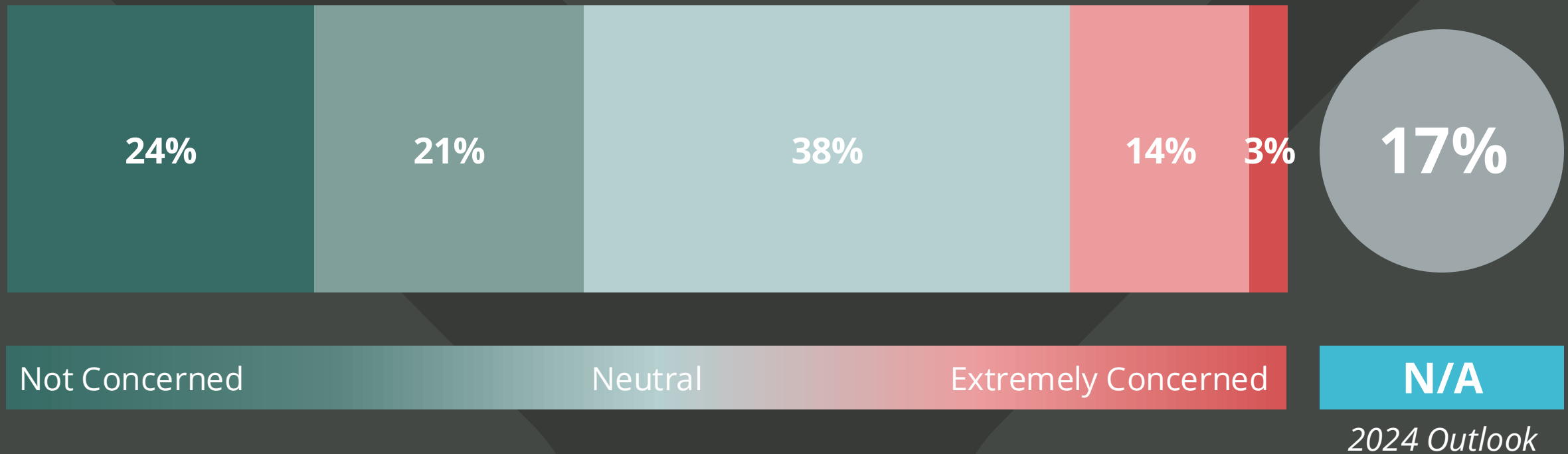
Delivering Projects Under Contract

Critical Issues Facing Your Firm Today – Project Delivery Issues



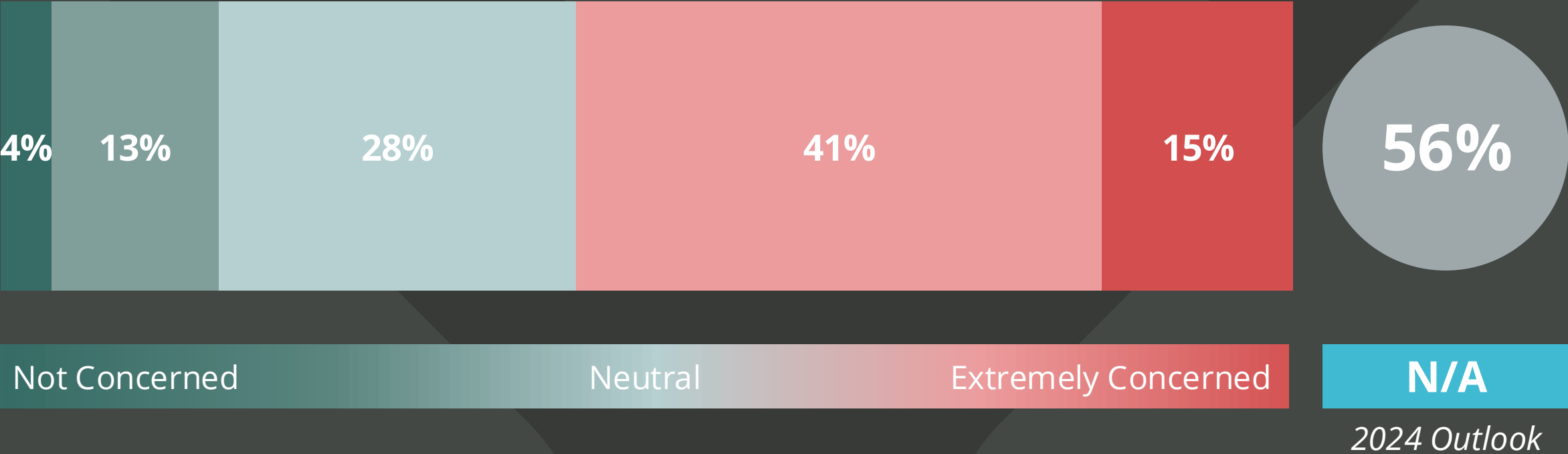
Lack of Material Availability

Critical Issues Facing Your Firm Today – Project Delivery Issues



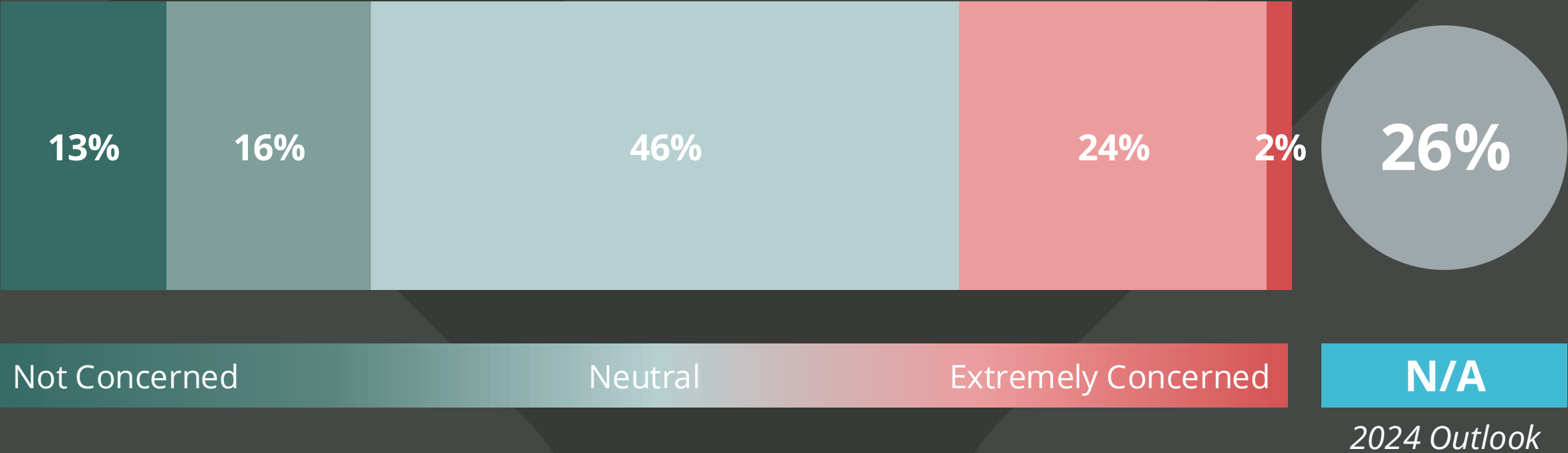
Competitive Pressures – Reduced Profitability

Critical Issues Facing Your Firm Today – Project Delivery Issues



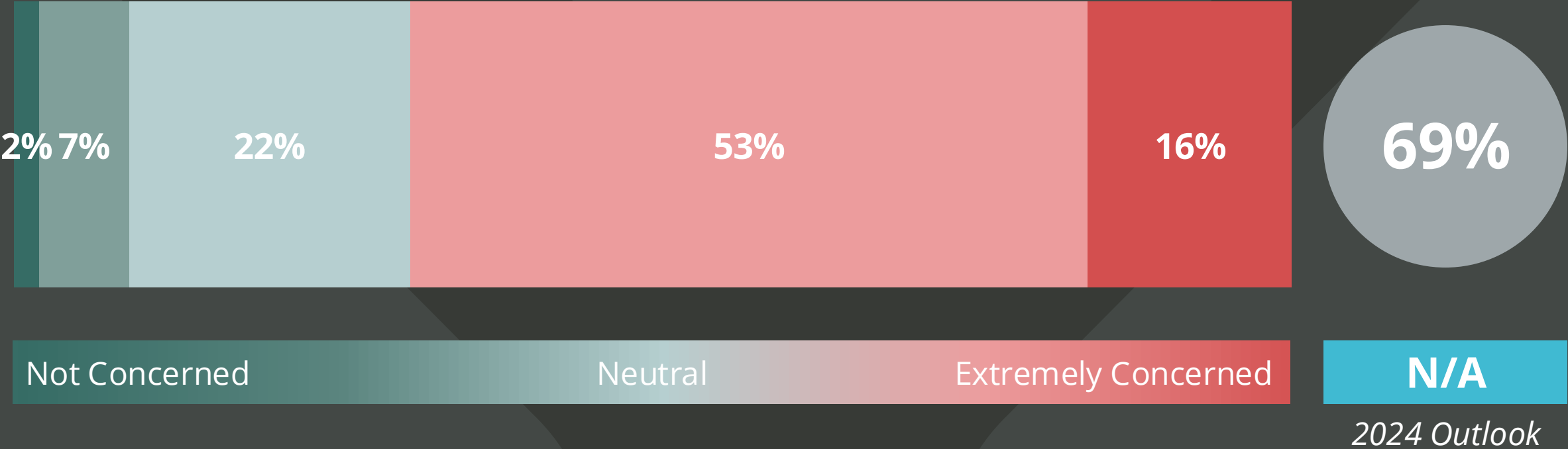
Changing Delivery Models

Critical Issues Facing Your Firm Today – Project Delivery Issues



Improving Operational Efficiencies

Critical Issues Facing Your Firm Today – Project Delivery Issues

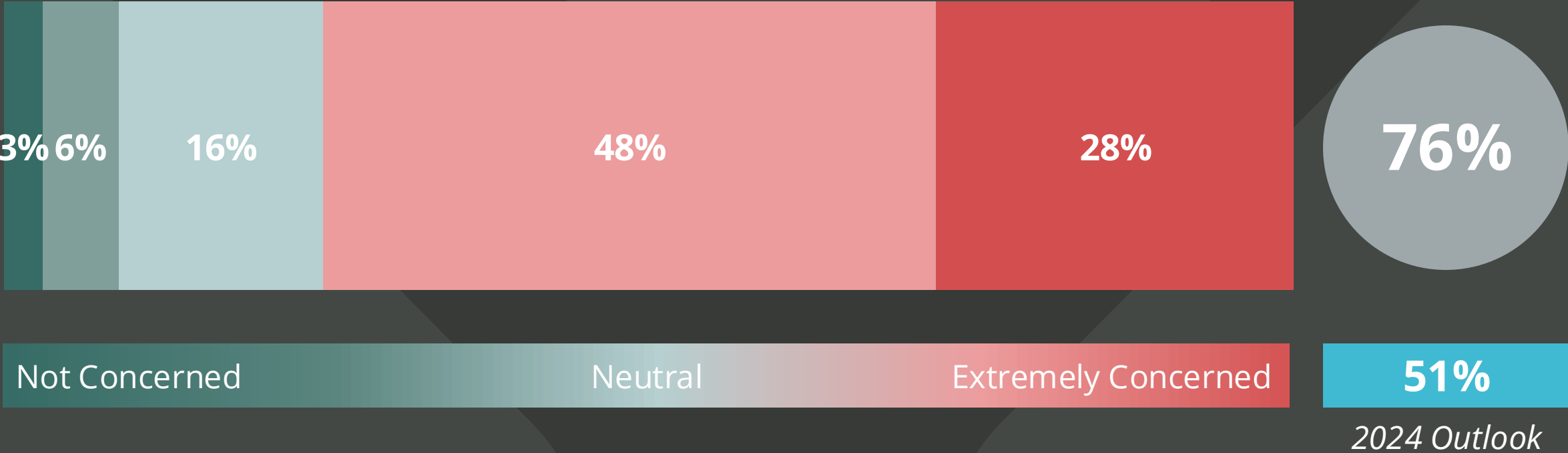




OWNERSHIP/LEADERSHIP ISSUES

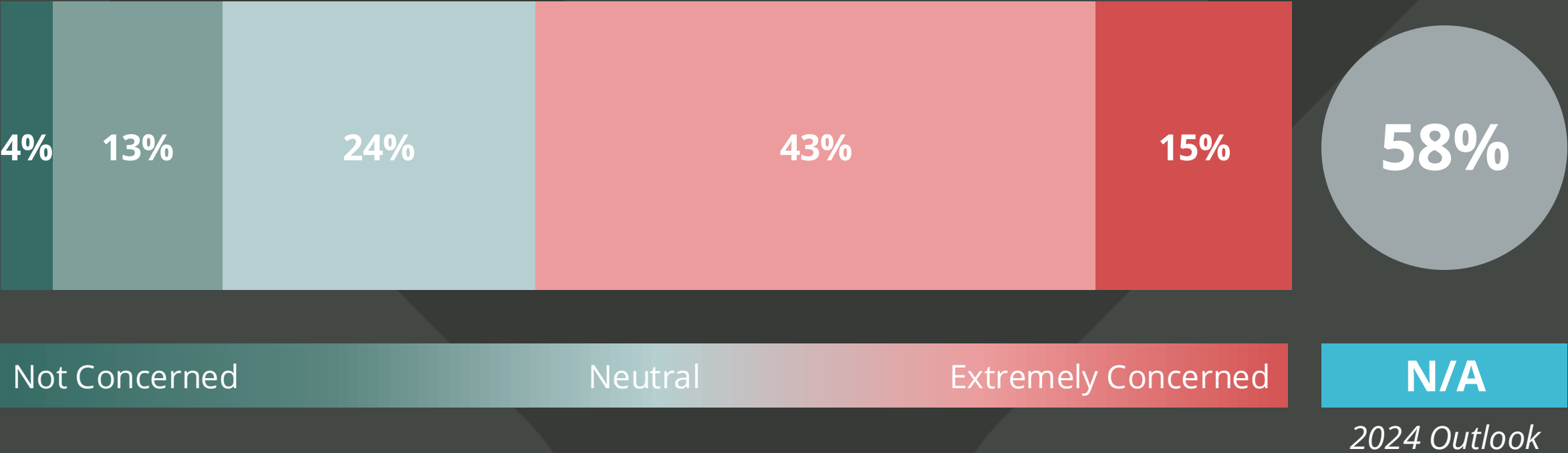
The “Missing Middle” (Mid-Career)

Critical Issues Facing Your Firm Today – Ownership/Leadership Issues



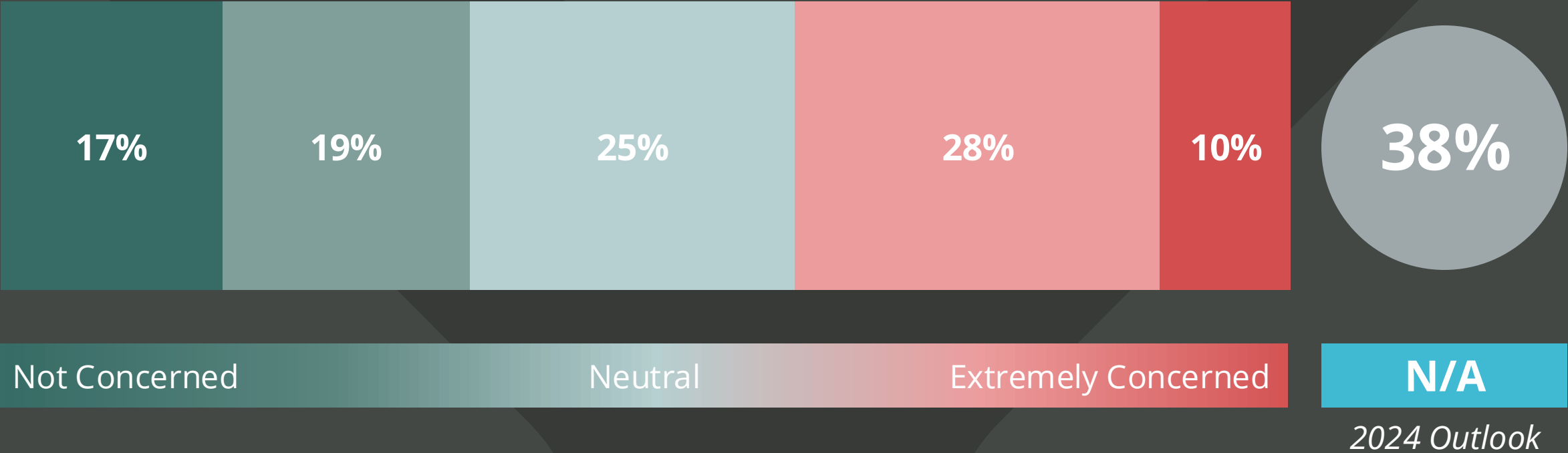
Lack of Leadership Candidates

Critical Issues Facing Your Firm Today – Ownership/Leadership Issues



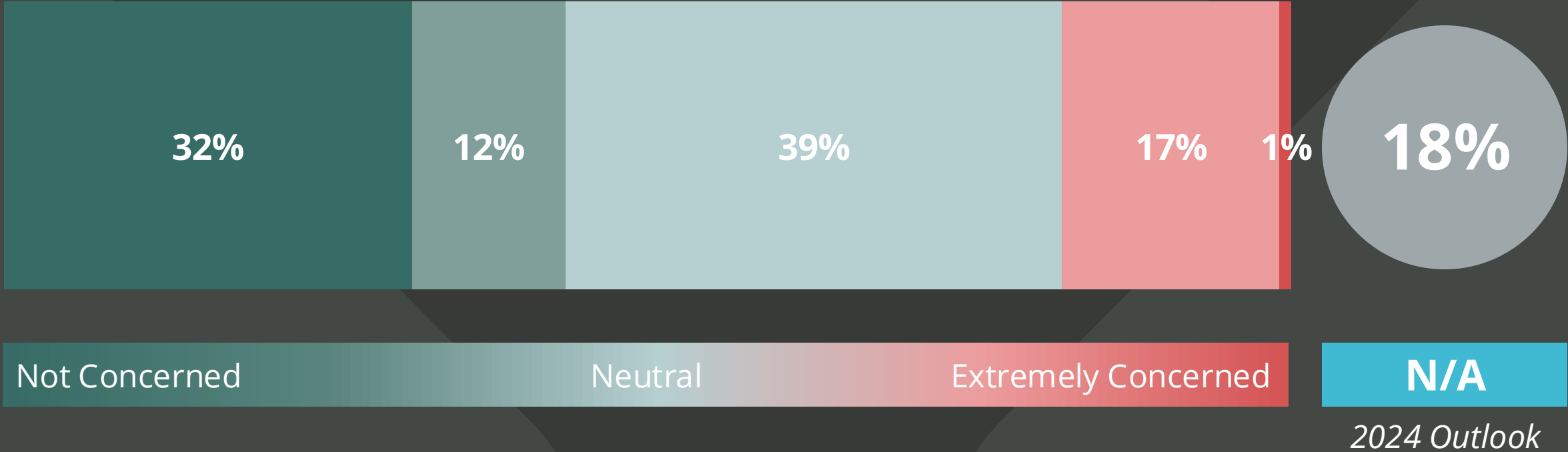
Lack of Ownership Candidates

Critical Issues Facing Your Firm Today – Ownership/Leadership Issues



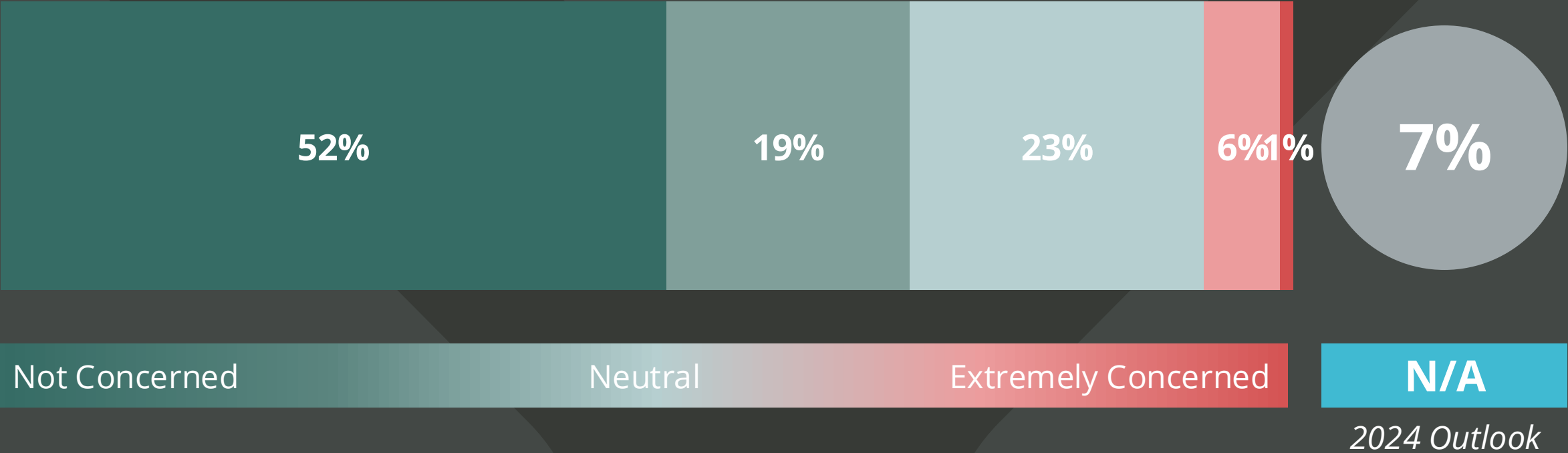
Acquiring Another Firm

Critical Issues Facing Your Firm Today – Ownership/Leadership Issues



Being Acquired by Another Firm

Critical Issues Facing Your Firm Today – Ownership/Leadership Issues



Poll

Does your firm plan to be involved in a merger, acquisition, and/or internal ownership transition?

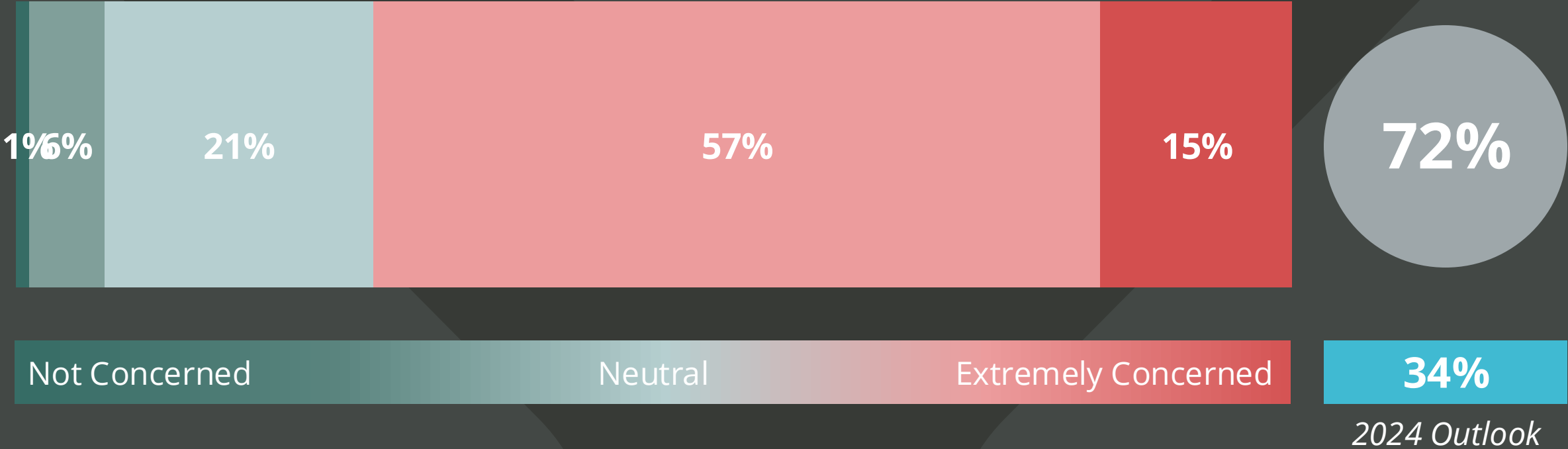
- Yes, within the next year
- Yes, within the next 2-5 years
- Yes, within the next 5-10 years
- No plans for a merger, acquisition, or internal ownership transition
- Does not apply



PROFESSIONAL DEVELOPMENT ISSUES

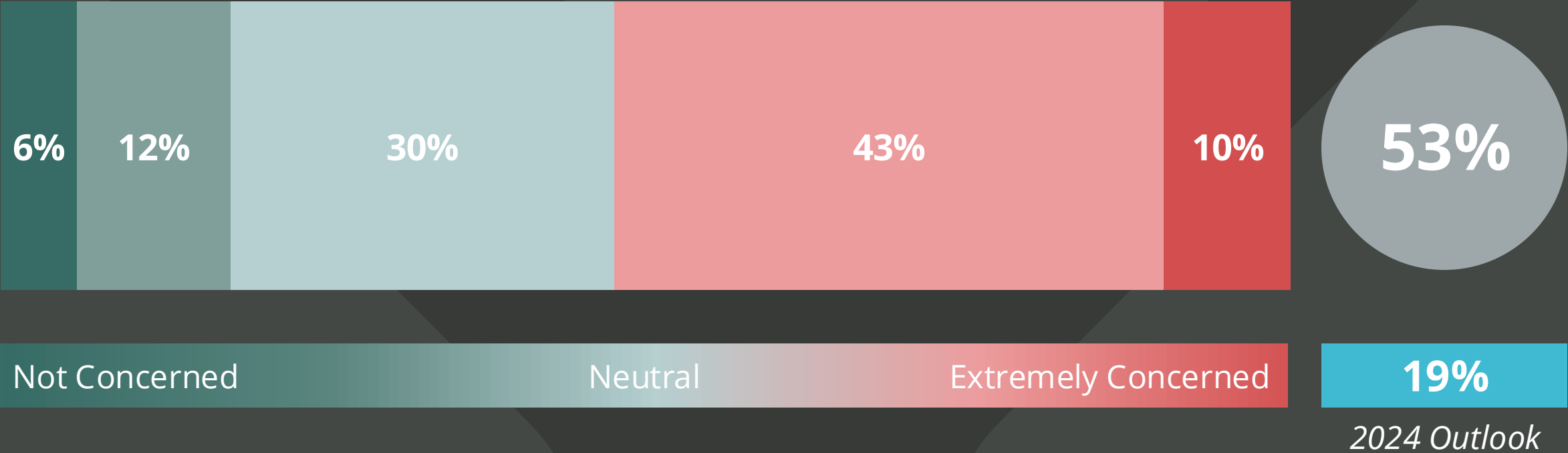
Need to Better Train Staff

Critical Issues Facing Your Firm Today – Professional Development Issues



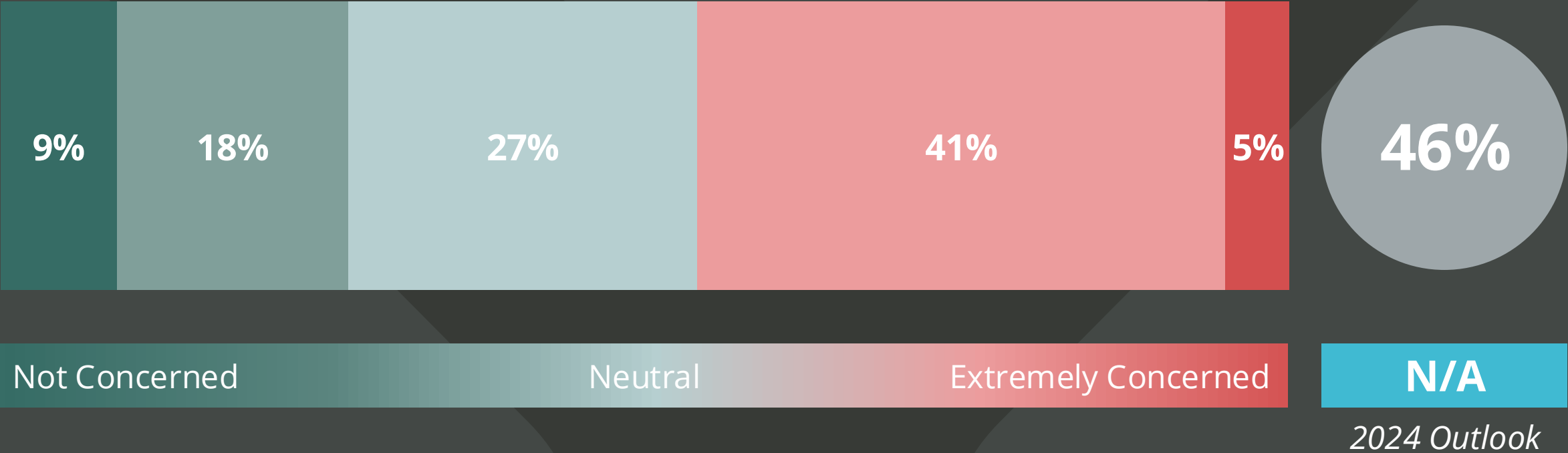
Lack of Internal Knowledge – Quality Issues

Critical Issues Facing Your Firm Today – Professional Development Issues



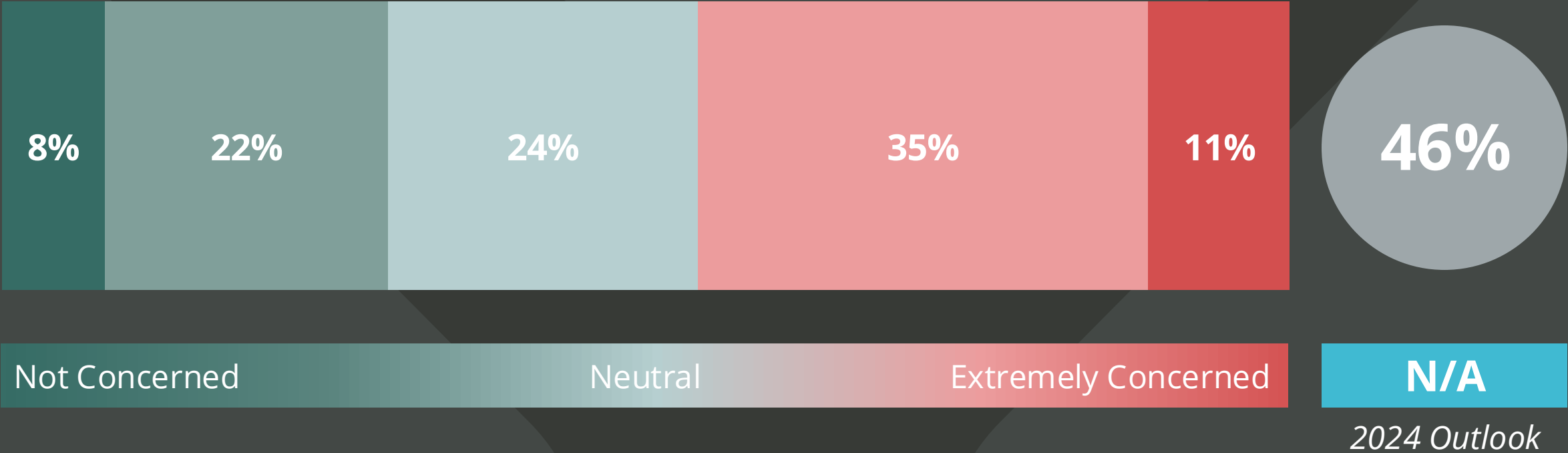
Multi-Generational Workforce/Demographics

Critical Issues Facing Your Firm Today – Professional Development Issues



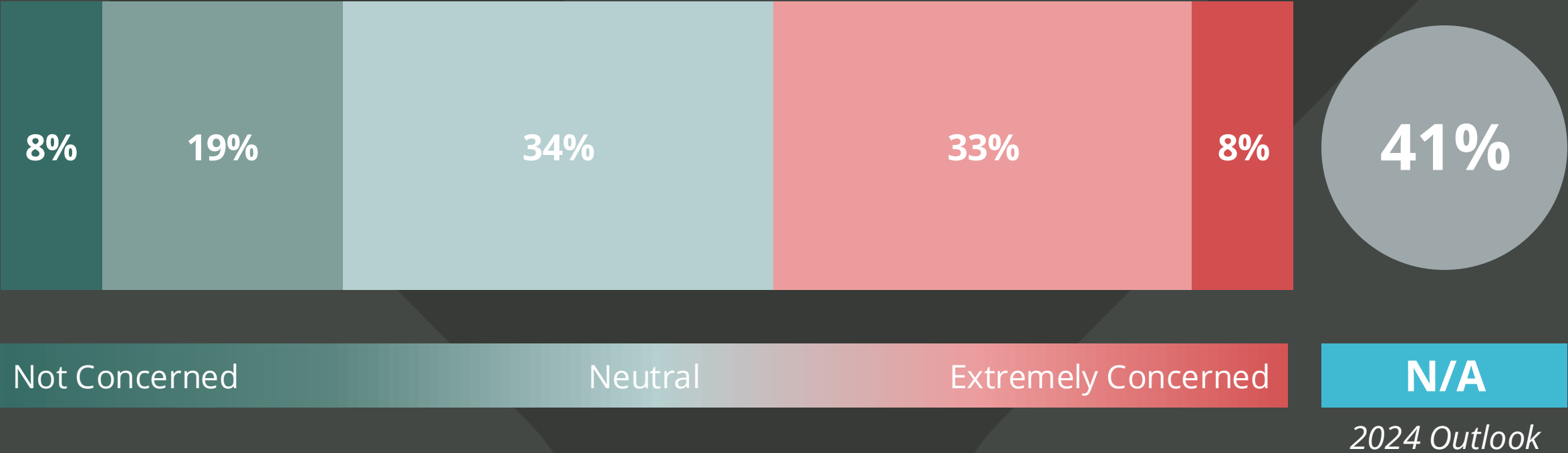
Staff Resistance to Working Overtime

Critical Issues Facing Your Firm Today – Professional Development Issues



Quiet Quitting – Not Getting 100%

Critical Issues Facing Your Firm Today – Professional Development Issues

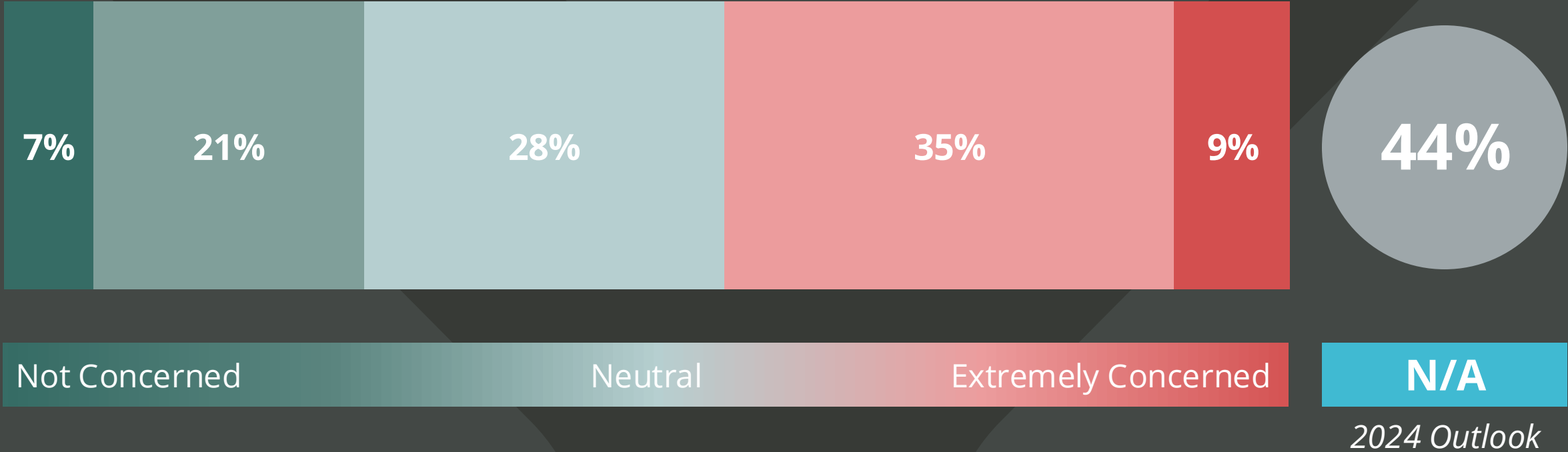


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TECHNOLOGY ISSUES

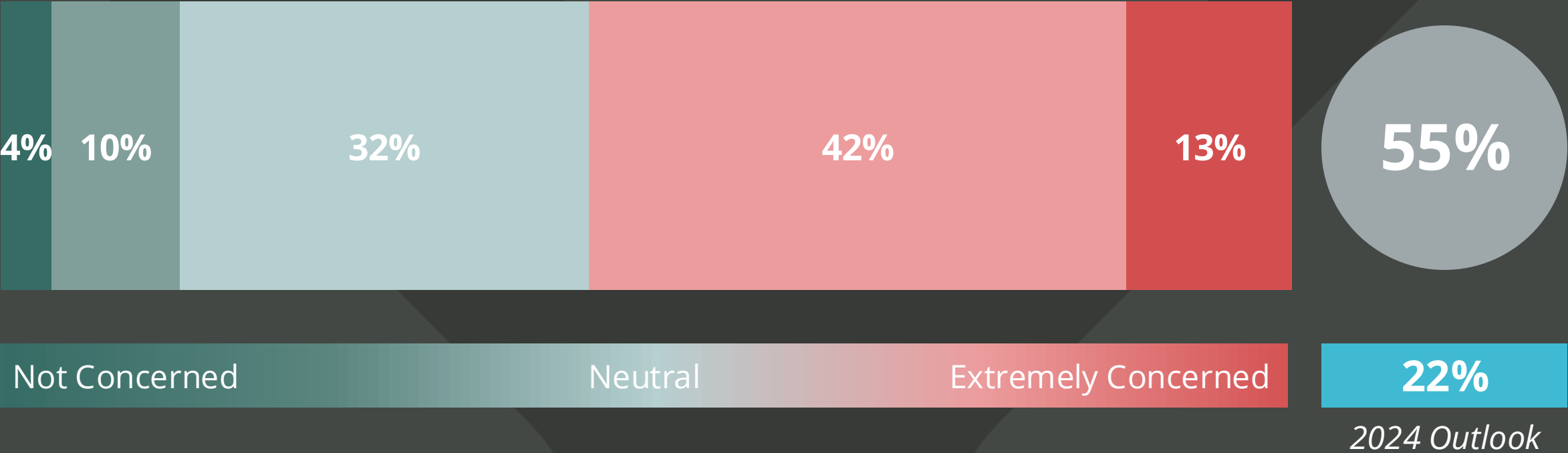
Ability to Keep Up with Tech Changes

Critical Issues Facing Your Firm Today – Technology Issues



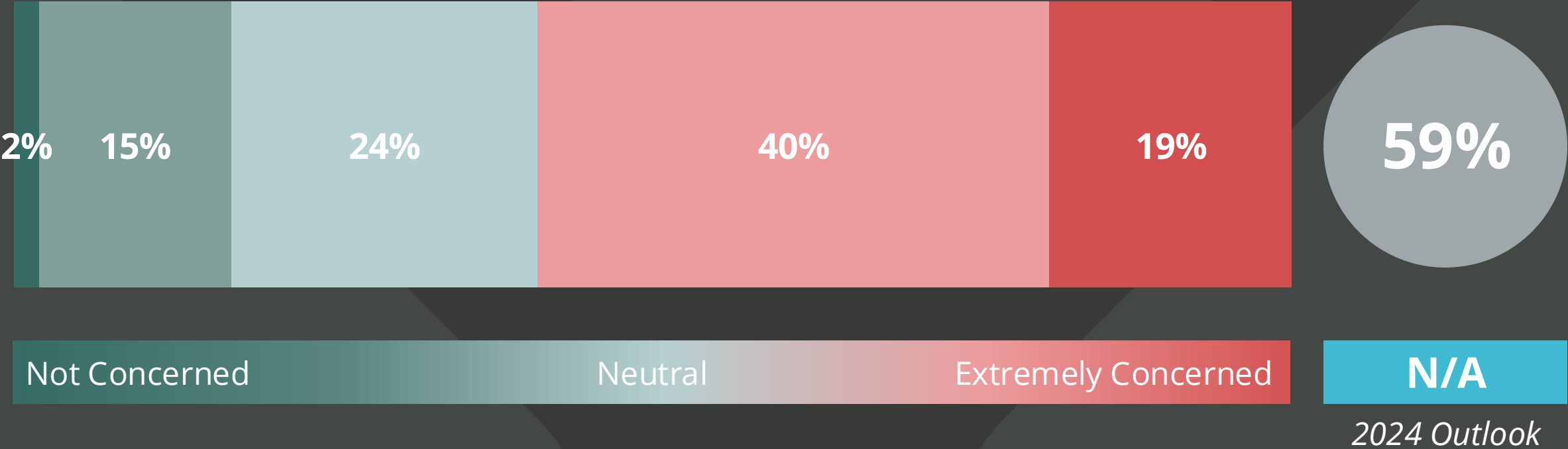
Integrating Automation & AI

Critical Issues Facing Your Firm Today – Technology Issues



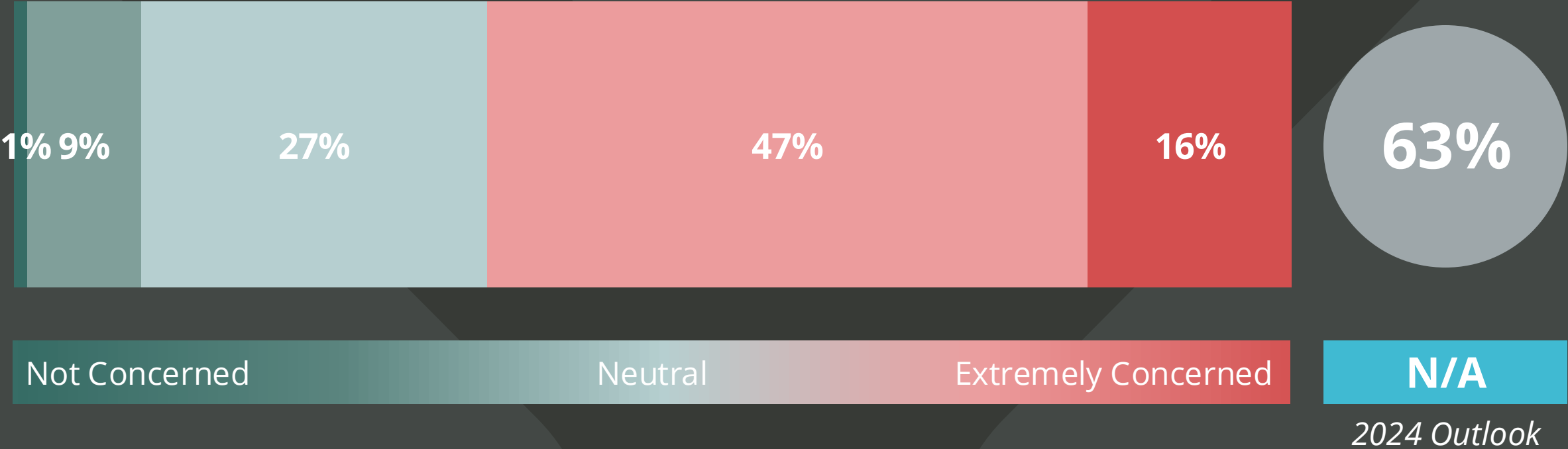
Cybersecurity Concerns

Critical Issues Facing Your Firm Today – Technology Issues



Cost of Technology

Critical Issues Facing Your Firm Today – Technology Issues

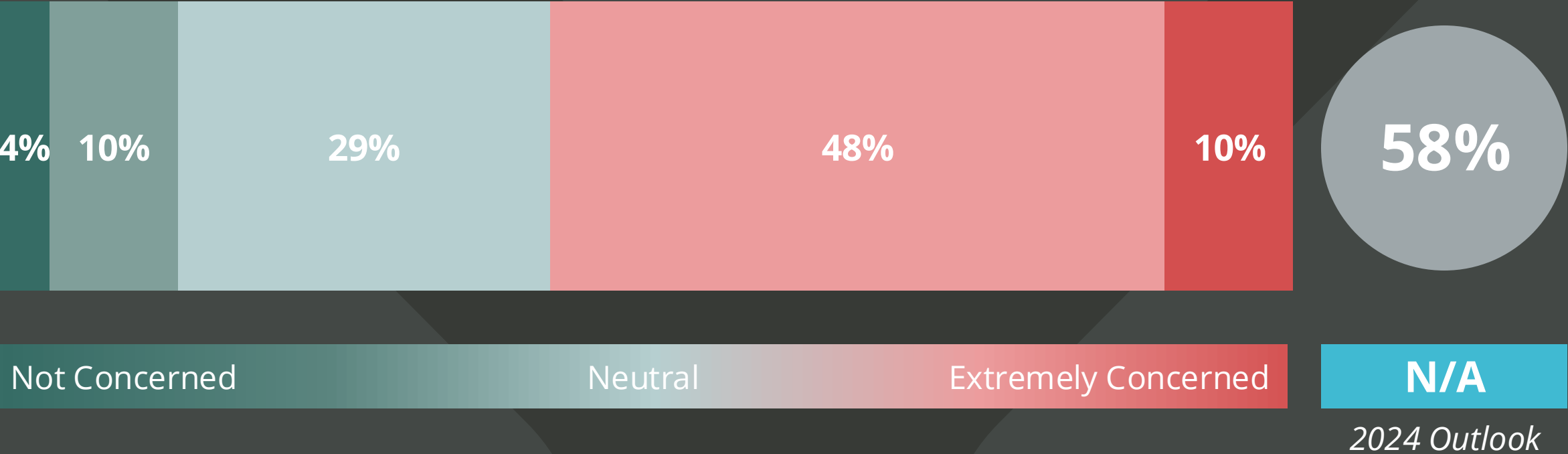




ADDITIONAL ISSUES

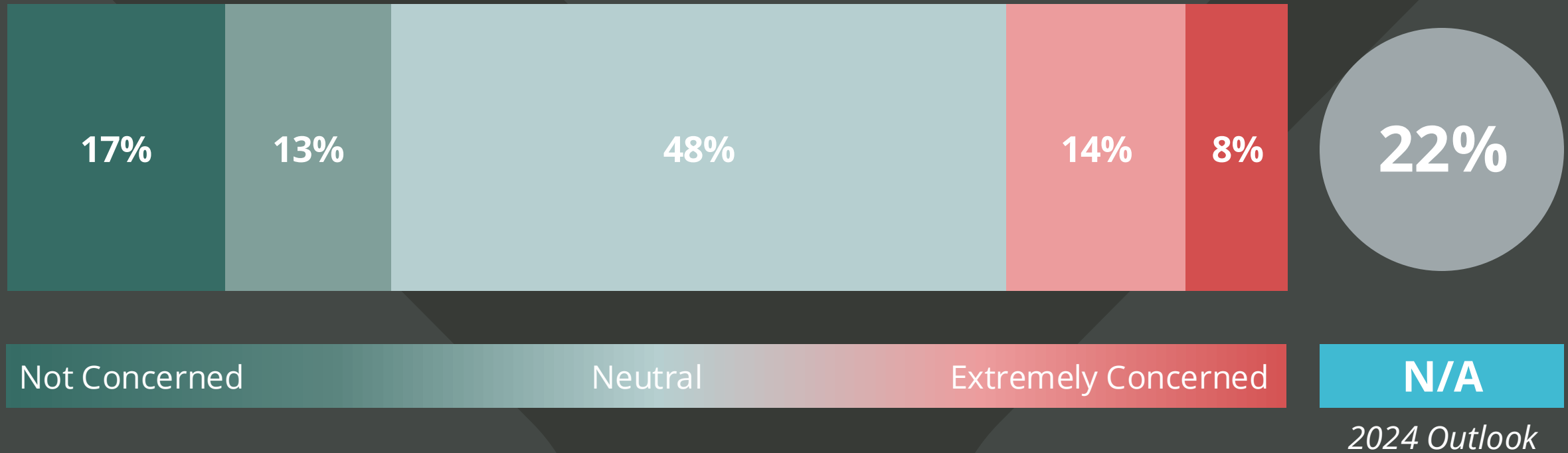
Differentiating from the Competition

Critical Issues Facing Your Firm Today – Additional Issues



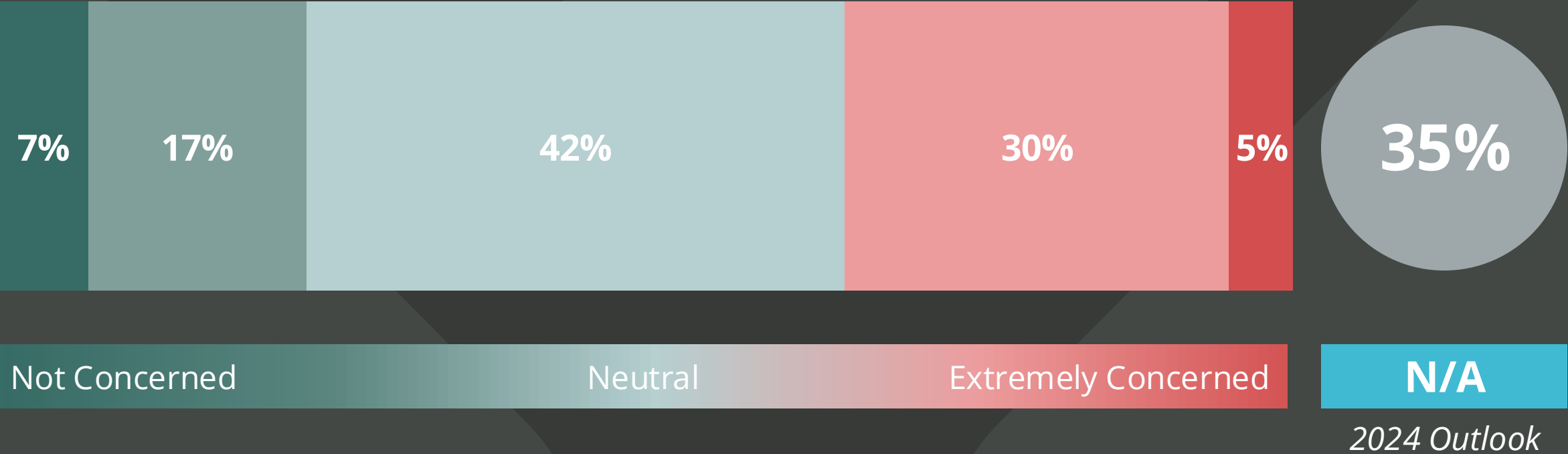
Risk of IJA Being Cancelled

Critical Issues Facing Your Firm Today – Additional Issues



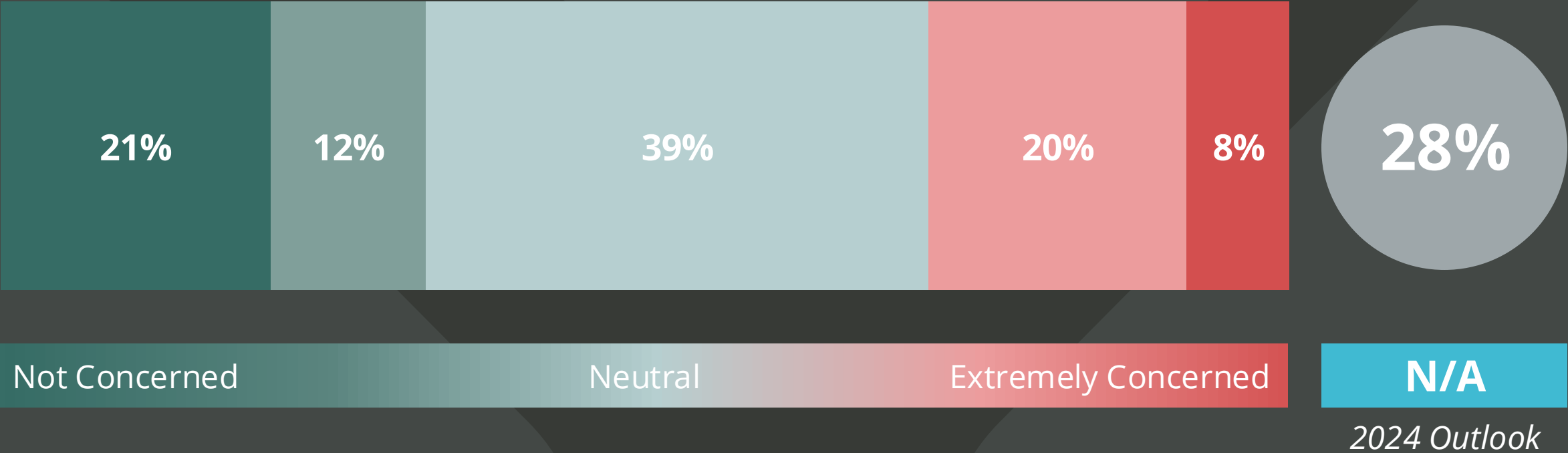
Increased Rate of Regulatory Changes

Critical Issues Facing Your Firm Today – Additional Issues



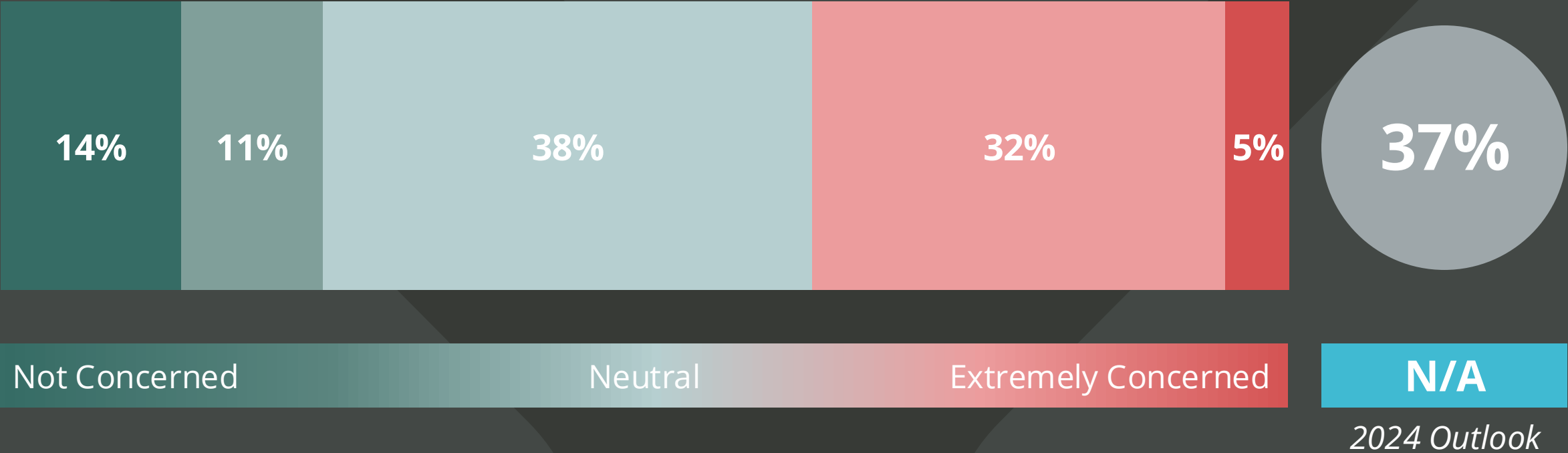
State of R&D Tax Credits

Critical Issues Facing Your Firm Today – Additional Issues



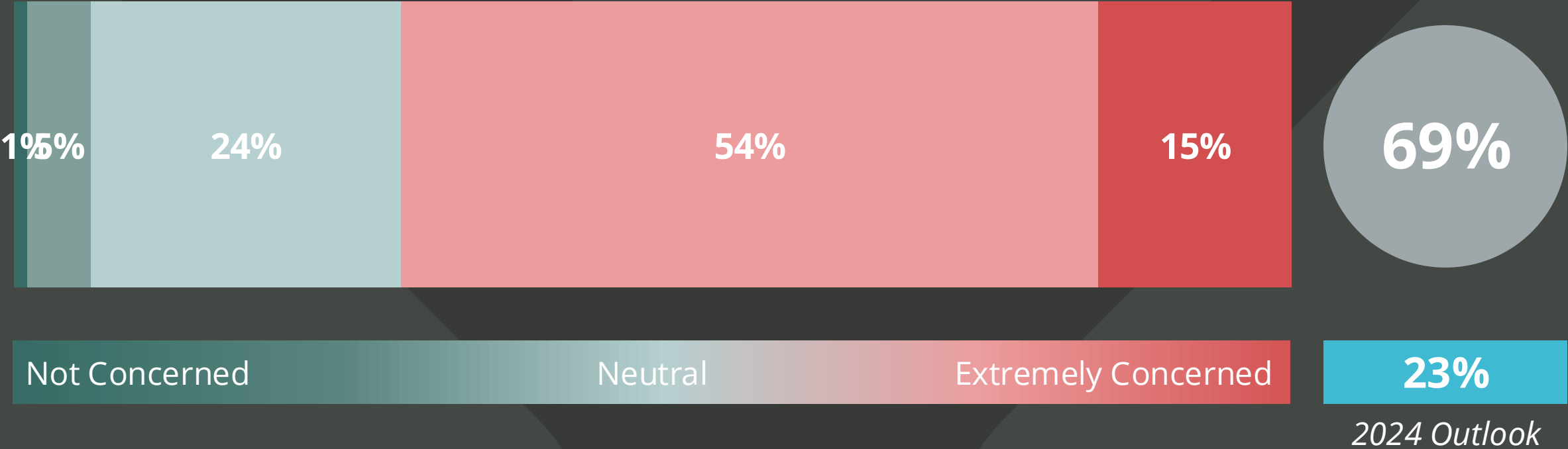
Impact of Private Equity in AEC

Critical Issues Facing Your Firm Today – Additional Issues



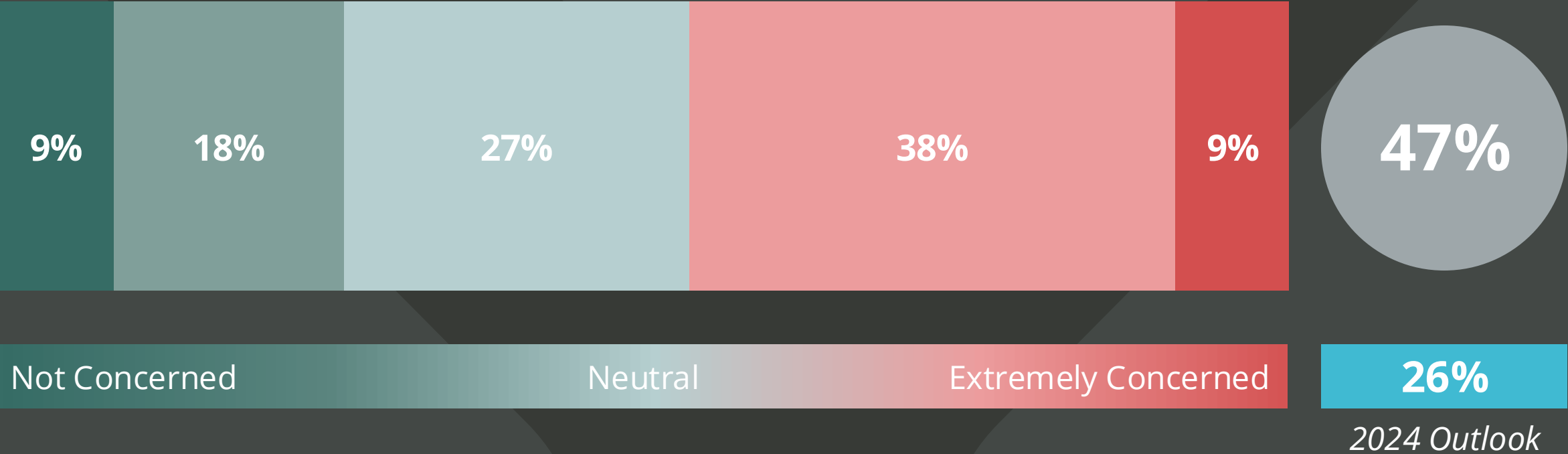
Managing Company Growth

Critical Issues Facing Your Firm Today – Additional Issues



Effect of WFH vs. In-Office vs. Hybrid

Critical Issues Facing Your Firm Today – Additional Issues



Top Critical Issues of AEC Firms

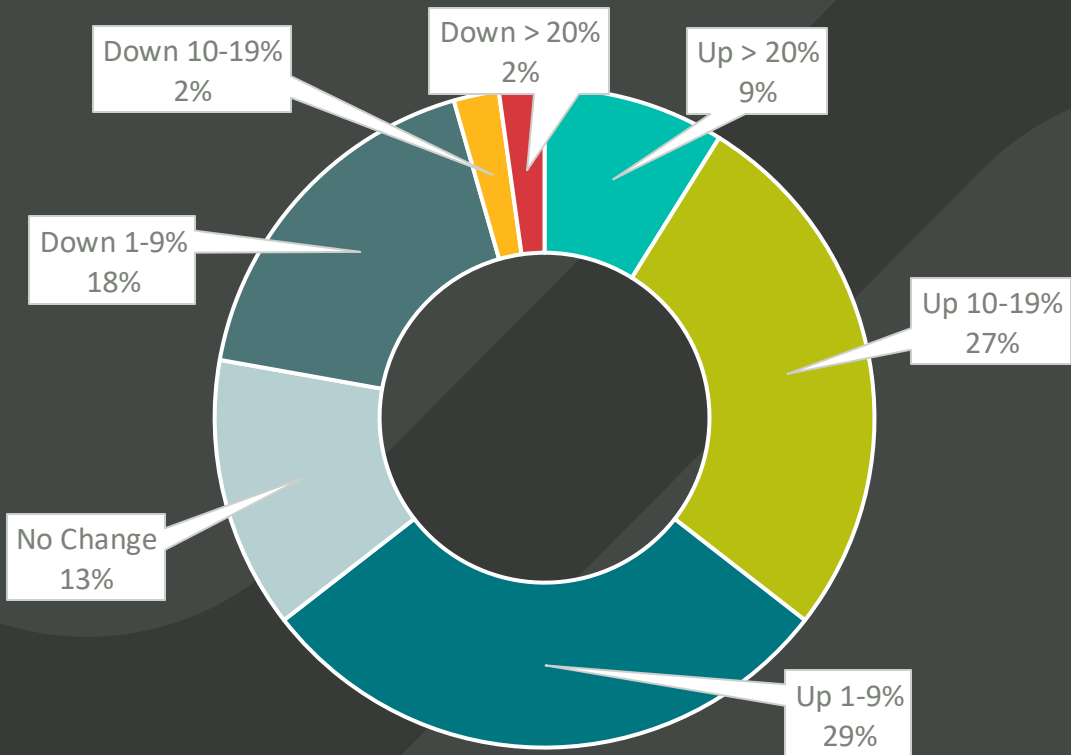


Architecture Firms [23%]

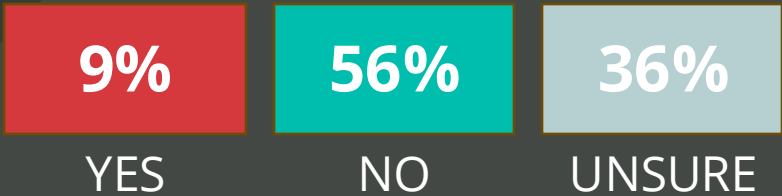
Top Critical Issues

1. Need to Better Train Staff 82%
2. Recruitment of New Staff 78%
3. Wage Growth 76%
4. Competitive Pressures – Reduced Profits 73%
5. Cost of Benefits 71%
5. Continued High Interest Rates 71%
7. Retention of Existing Staff 69%
7. The Missing Middle 69%
7. Managing Company Growth 69%
10. Cost of Technology 68%

2024 Revenue Projections



Recession in 2025?

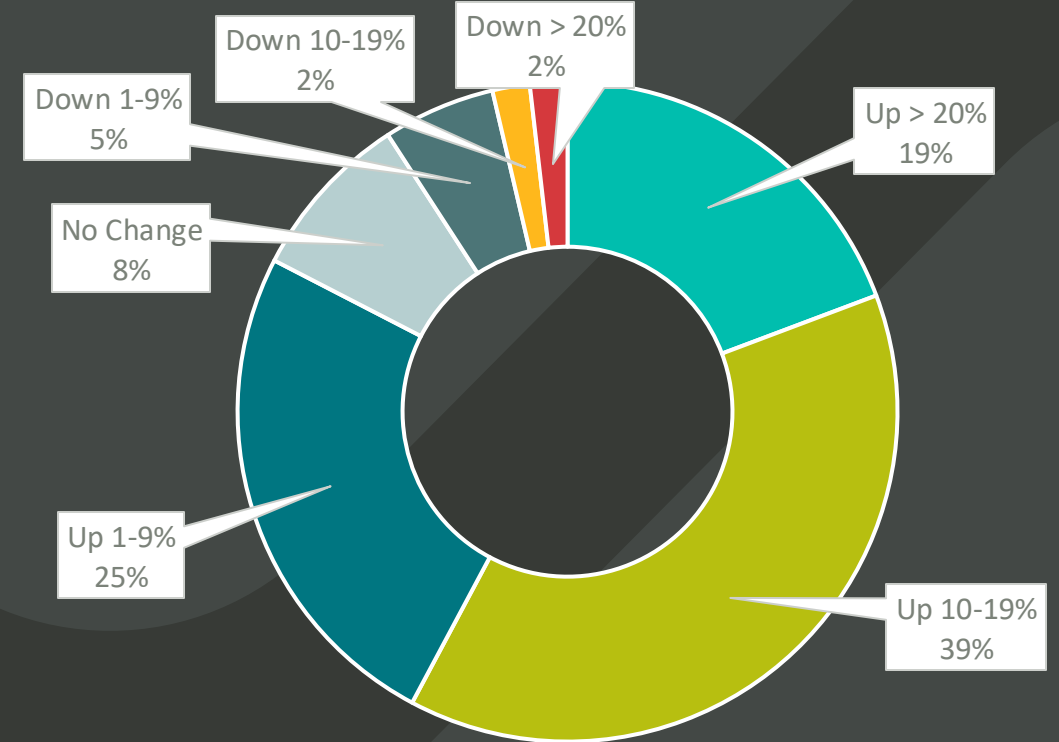


Engineering/Environmental Firms [55%]

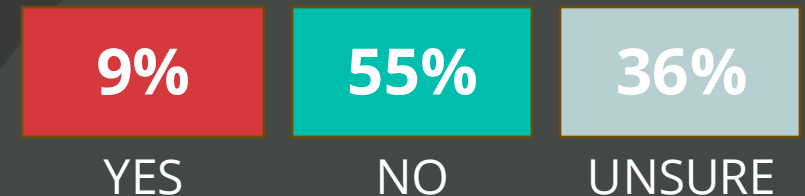
Top Critical Issues

1. Recruitment of New Staff | 83%
2. The Missing Middle | 80%
3. Cost of Benefits | 72%
4. Improving Operational Efficiencies | 71%
5. Retention of Existing Staff | 70%
6. Managing Company Growth | 68%
7. Need to Better Train Staff | 67%
7. Inflationary Pressures | 67%
9. Lack of Leadership Candidates | 66%
10. Wage Growth | 65%

2024 Revenue Projections



Recession in 2025?

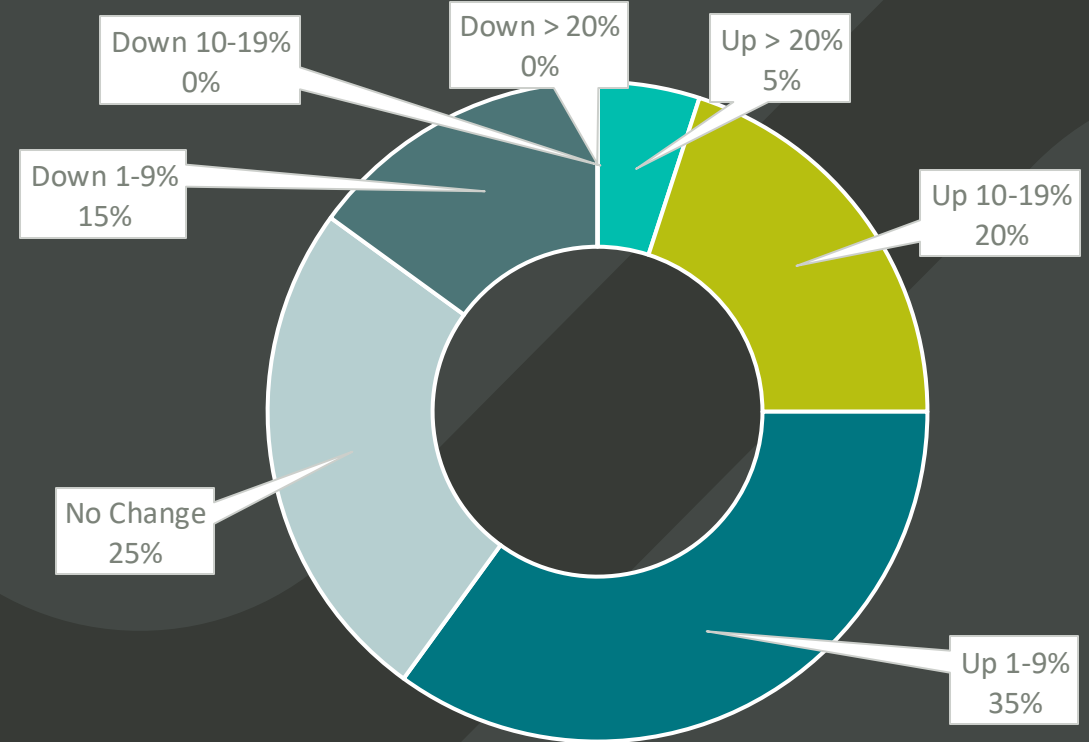


Architecture/Engineering Firms [10%]

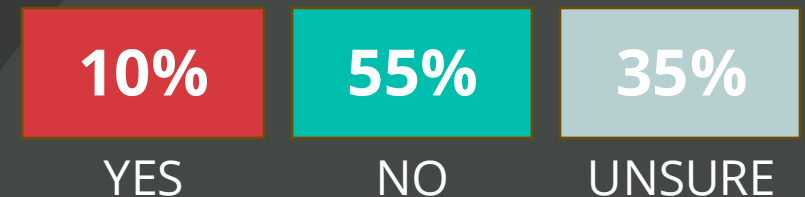
Top Critical Issues

1. Recruitment of New Staff | 90%
2. The Missing Middle | 80%
2. Retention of Existing Staff | 80%
2. Integrating Automation/AI | 80%
2. Managing Company Growth | 80%
6. Cost of Benefits | 80%
7. Need to Better Train Staff | 75%
7. Differentiating from the Competition | 75%
8. Lack of Internal Knowledge – Quality Issues | 65%
8. Technology + Operational Efficiencies | 65%

2024 Revenue Projections



Recession in 2025?



1-24 Employees [18%]

Top Critical Issues

1. Recruitment of New Staff | 72%

1. Wage Growth | 72%

3. The Missing Middle | 69%

4. Need to Better Train Staff | 61%

4. Cost of Benefits | 61%

6. Inflationary Pressures | 58%

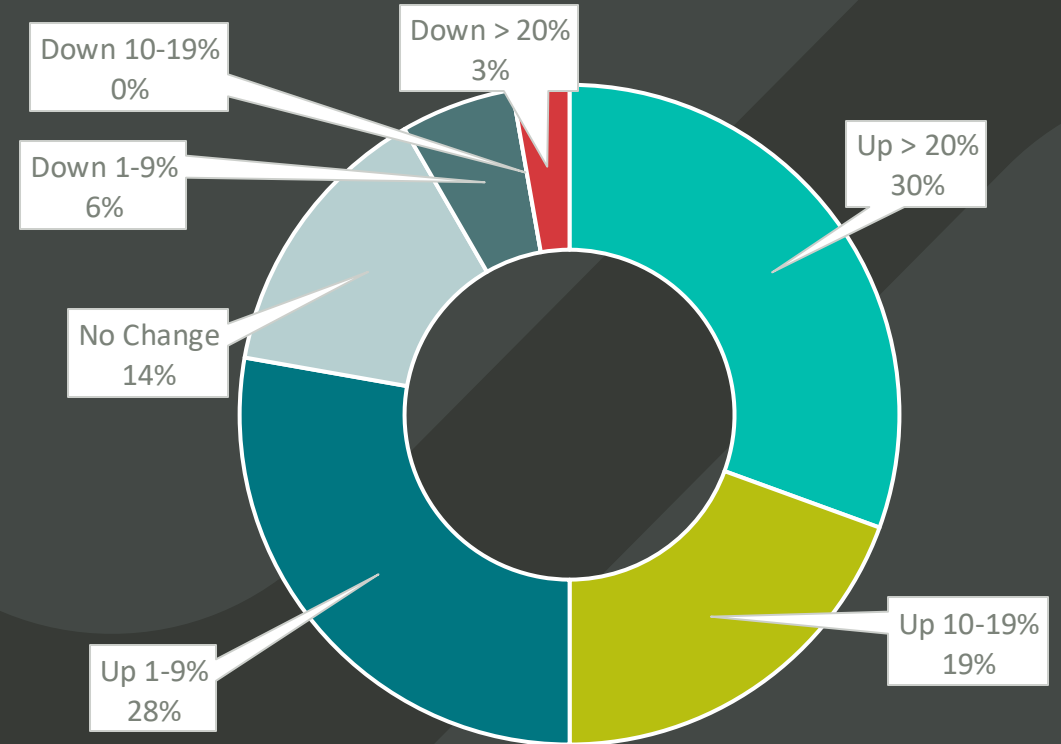
6. Cybersecurity Concerns | 58%

8. Retention of Existing Staff | 56%

8. Managing Company Growth | 56%

10. Lack of Leadership Candidates | 54%

2024 Revenue Projections



Recession in 2025?

11%

YES

50%

NO

39%

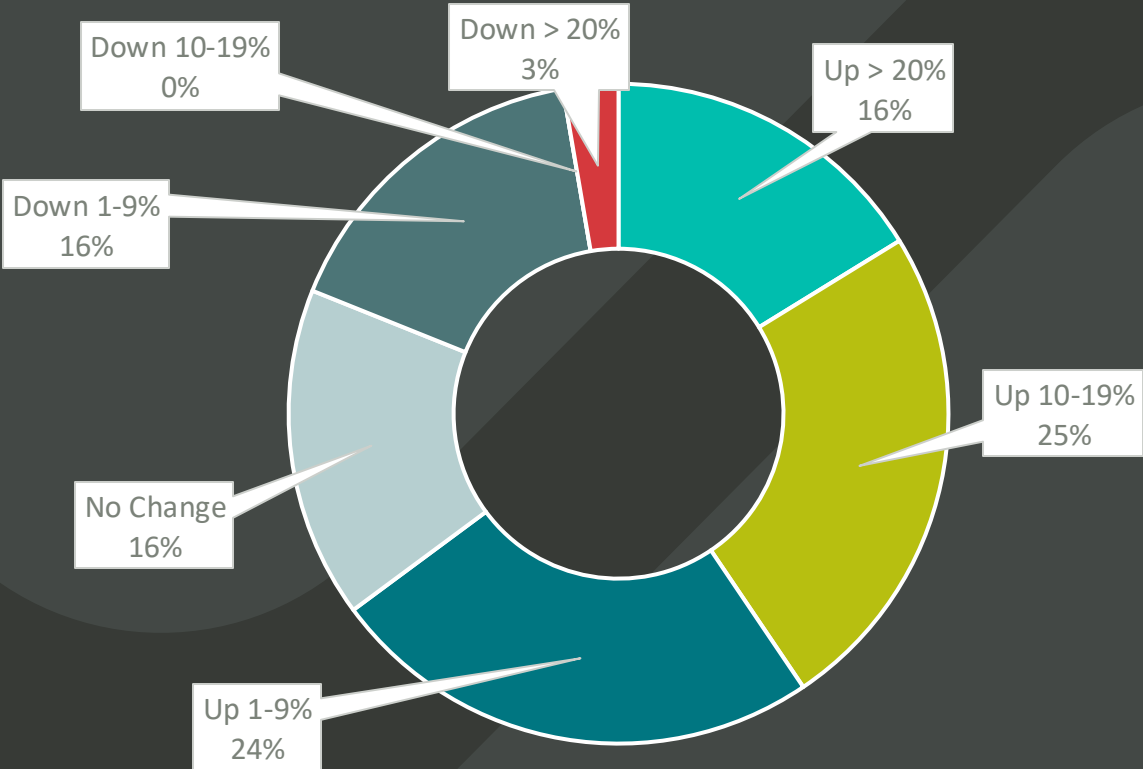
UNSURE

25-49 Employees [19%]

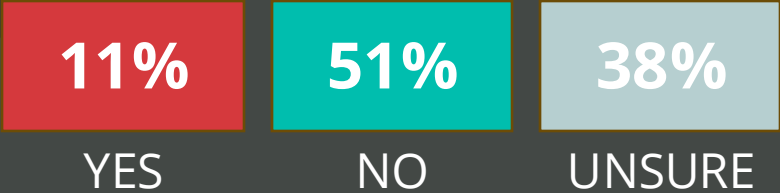
Top Critical Issues

1. Recruitment of New Staff 78%
1. Improving Operational Efficiencies 78%
3. The Missing Middle 76%
3. Need to Better Train Staff 76%
3. Cost of Benefits 76%
6. Managing Company Growth 68%
7. Retention of Existing Staff 65%
7. Lack of Leadership Candidates 65%
7. Competitive Pressures – Reduced Profits 65%
10. Ability to Obtain New Projects 59%

2024 Revenue Projections



Recession in 2025?

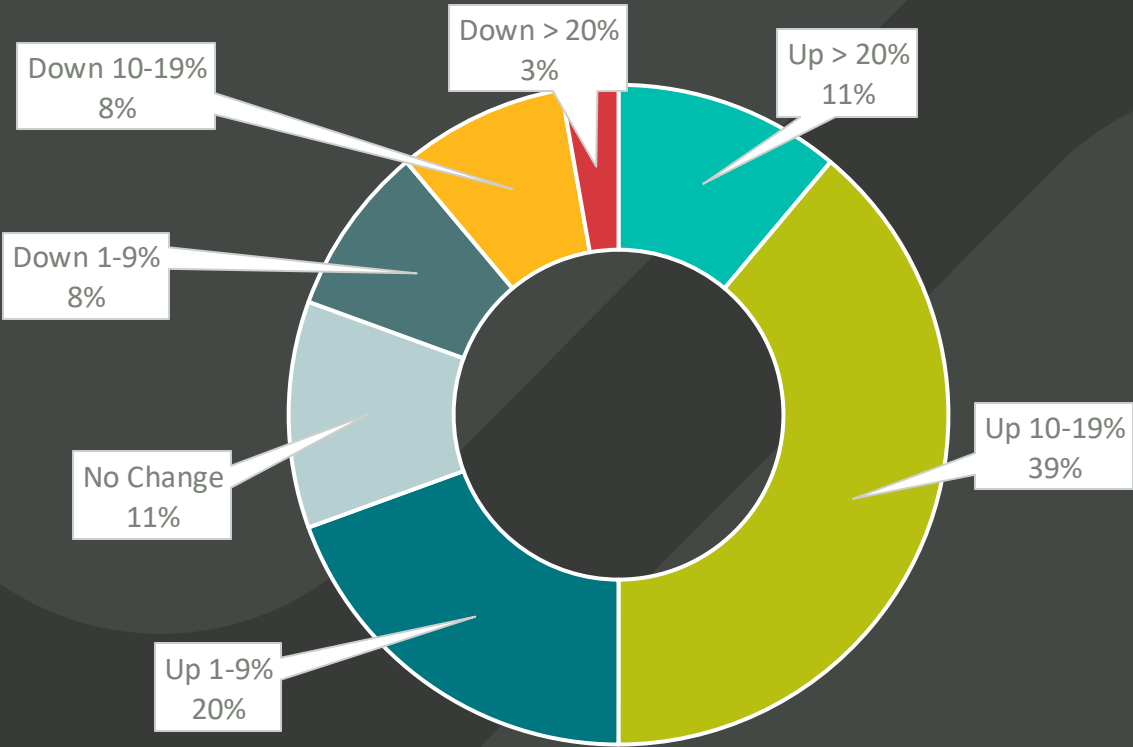


50-99 Employees [18%]

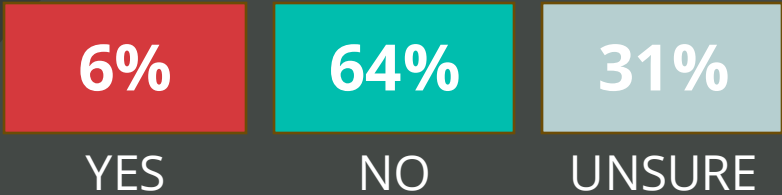
Top Critical Issues

1. Recruitment of New Staff 81%
1. Cost of Benefits 81%
1. Improving Operational Efficiencies 81%
1. The Missing Middle 81%
5. Need to Better Train Staff 78%
6. Retention of Existing Staff 72%
6. Managing Company Growth 72%
8. Wage Growth 69%
8. Integrating Automation/AI 69%
10. High Interest Rates + Cost of Technology 67%

2024 Revenue Projections



Recession in 2025?



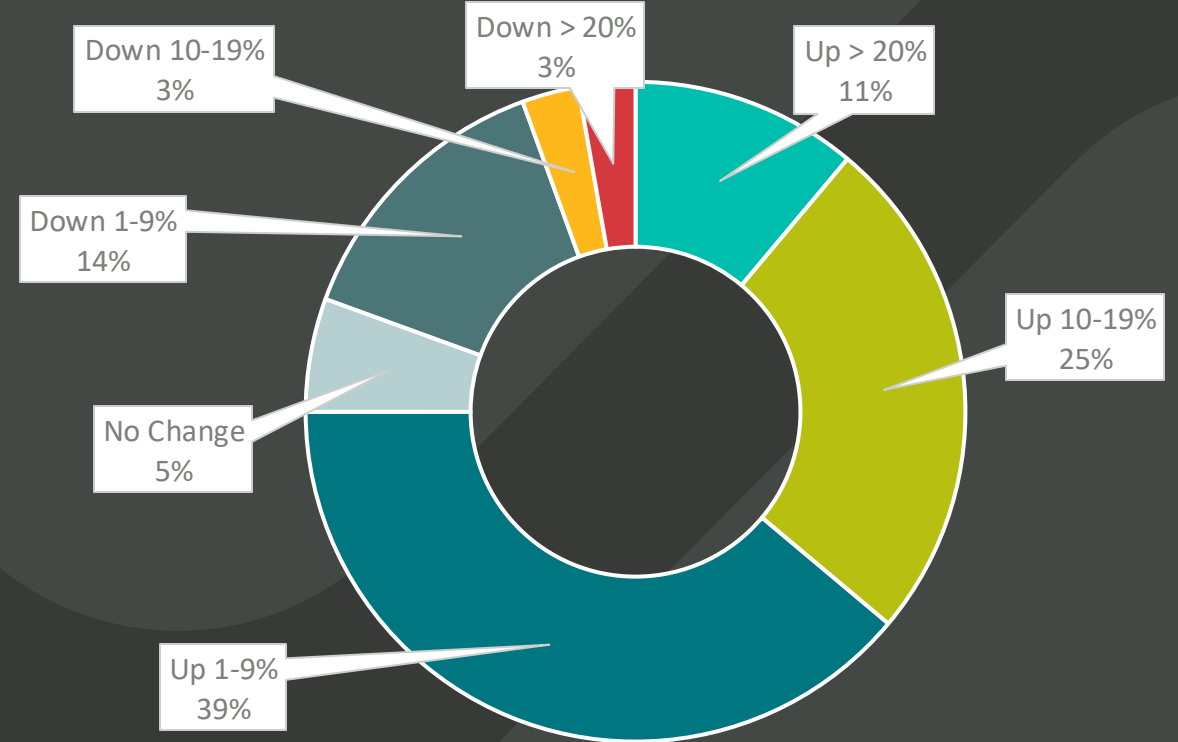
100-249 Employees [18%]

Top Critical Issues

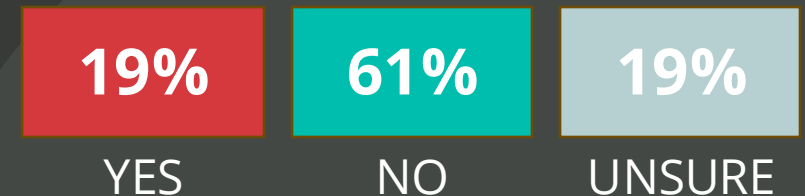
1. Recruitment of New Staff | 83%
2. Inflationary Pressures | 78%
3. The Missing Middle | 75%
4. Wage Growth | 72%
4. Cost of Benefits | 72%
6. Need to Better Train Staff | 69%
6. Cost of Technology | 69%
6. Managing Company Growth | 69%
9. Retention of Existing Staff | 67%
9. Cybersecurity Concerns | 67%

2025 AEC Outlook

2024 Revenue Projections



Recession in 2025?

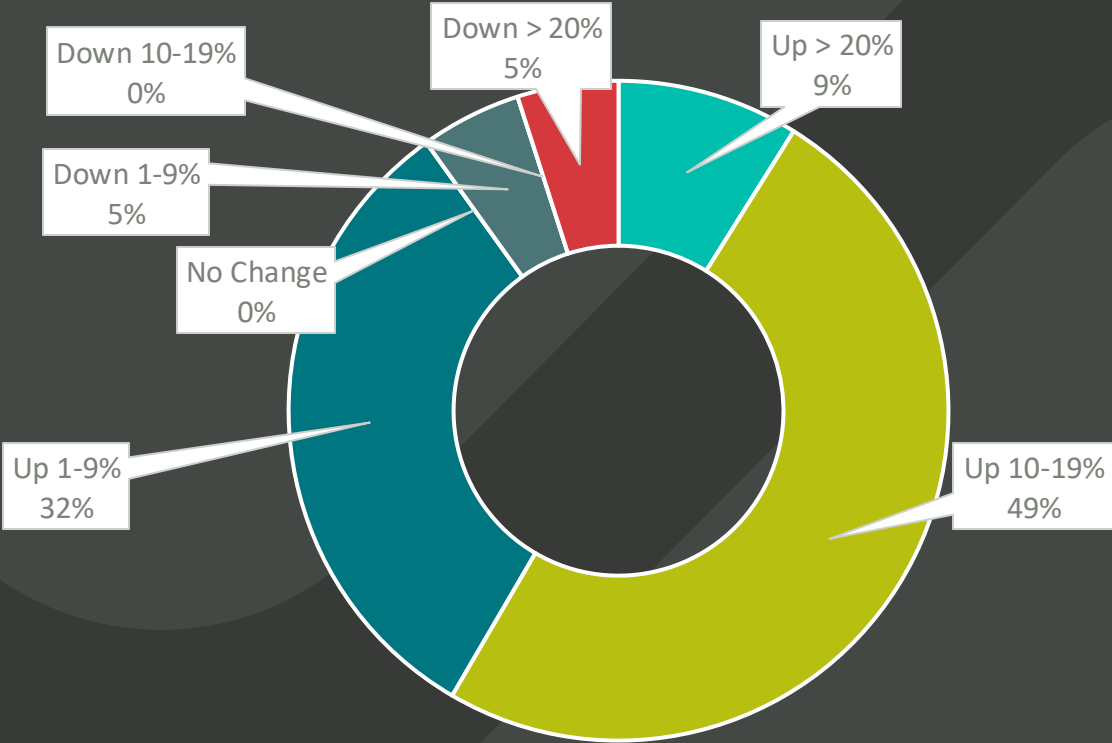


250-499 Employees [11%]

Top Critical Issues

1. Need to Improve Operational Efficiencies 95%
2. Recruitment of New Staff 86%
3. The Missing Middle 82%
4. Managing Company Growth 81%
5. Cost of Benefits 77%
6. Retention of Existing Staff 73%
6. Cost of Technology 73%
8. Competitive Pressures – Reduced Profits 68%
8. Ability to Keep up with Technology Change 68%
10. Wage Growth 64%

2024 Revenue Projections



Recession in 2025?

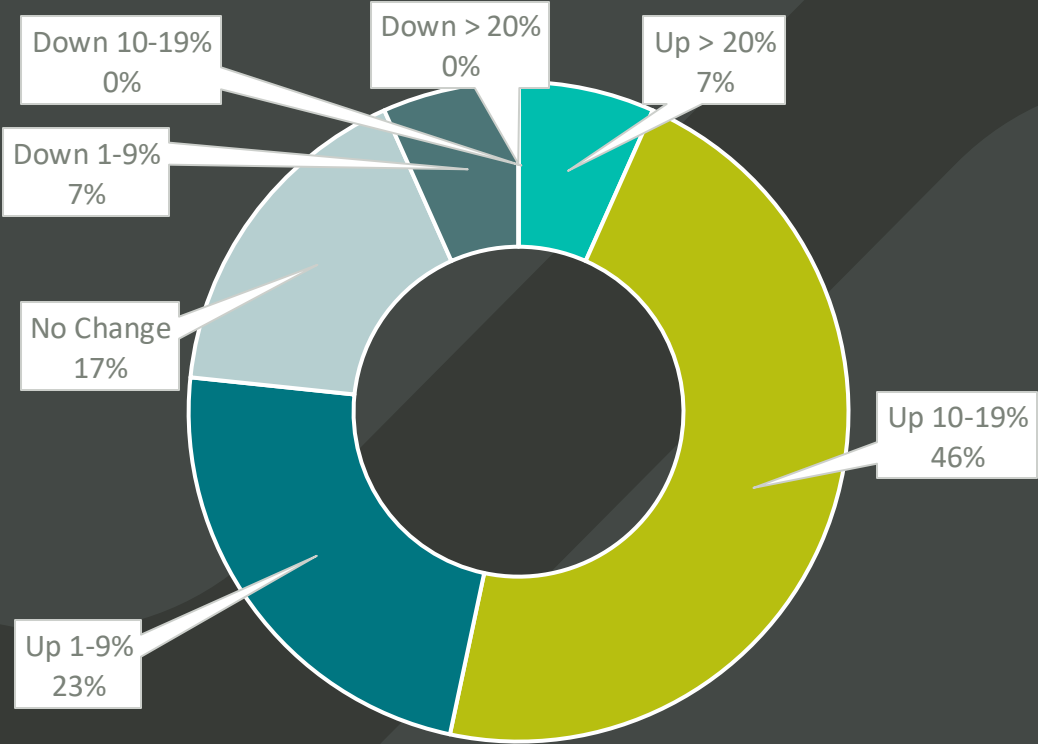


500+ Employees [11%]

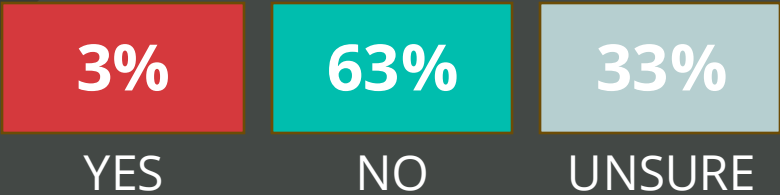
Top Critical Issues

1. Recruitment of New Staff 87%
2. Retention of Existing Staff 83%
2. Need to Better Train Staff 83%
4. The Missing Middle 80%
5. Managing Company Growth 77%
6. Integrating Automation/AI 73%
7. Cybersecurity Concerns 67%
8. Cost of Technology 66%
9. Cost of Benefits 63%
9. Differentiating from the Competition 63%

2024 Revenue Projections



Recession in 2025?



Poll

What areas have posed the greatest challenges when managing growth? (Check all that apply)

- Recruiting and retention
- Information technology
- Culture
- Financial
- Other (Comment in chat)



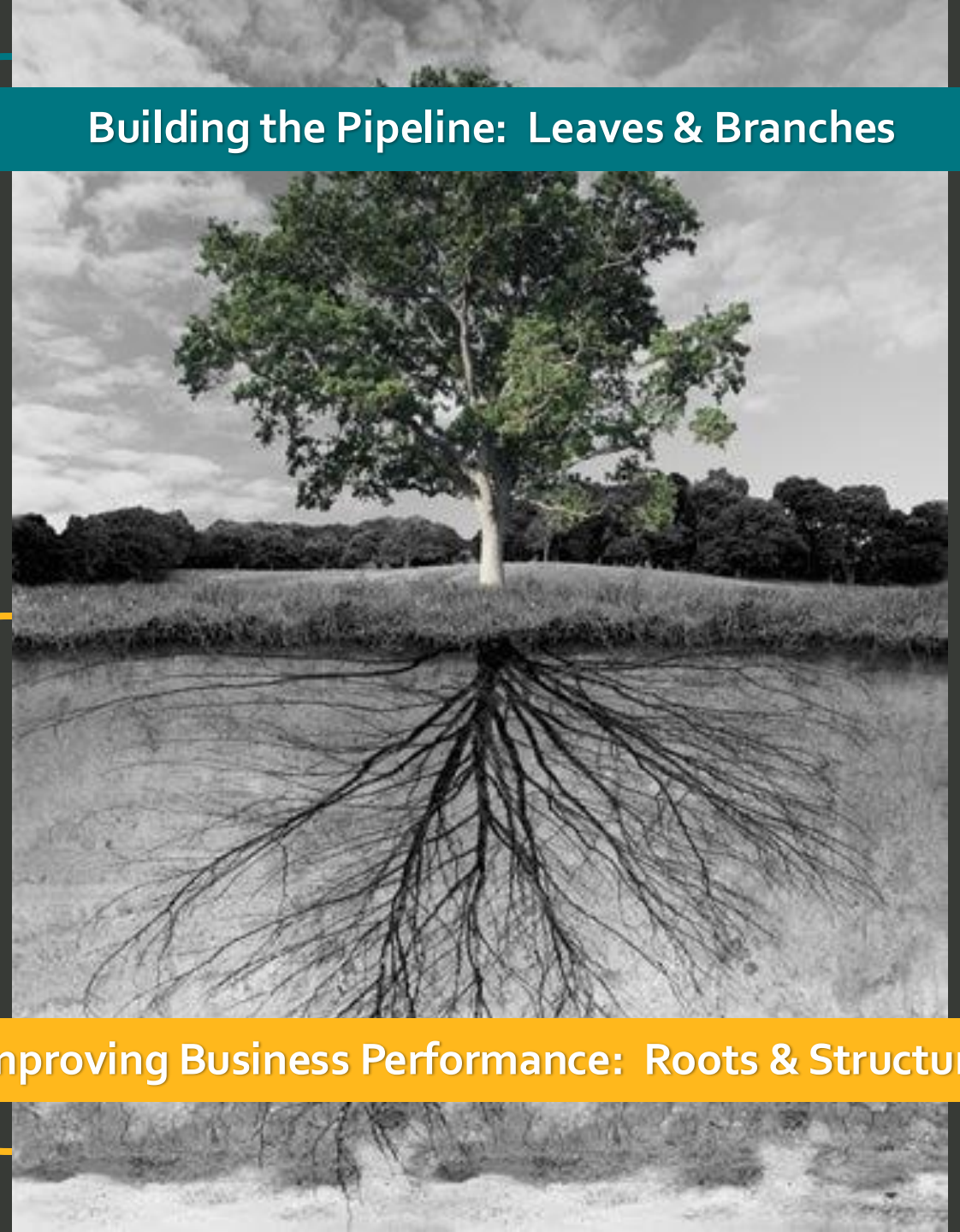
Growth

Quantitative Growth

Qualitative Growth

Building the Pipeline: Leaves & Branches

Improving Business Performance: Roots & Structure



Refining the market segments, client types, & services lines that play to your unique competitive advantage to increase revenues.

Building the Pipeline : Leaves & Branches

Utilizing data driven methodologies, to improve performance, policies, practices, & behaviors to increase profitability.

Improving Business Performance : Roots & Structure

Are You Growing Revenue or Profits?

Net Revenues per Total Staff

2024	2023	2022	2021	2020
\$179,026	\$170,743	\$159,595	\$153,504	\$155,041

Are You Growing Revenue or Profits?

Net Revenues per Total Staff

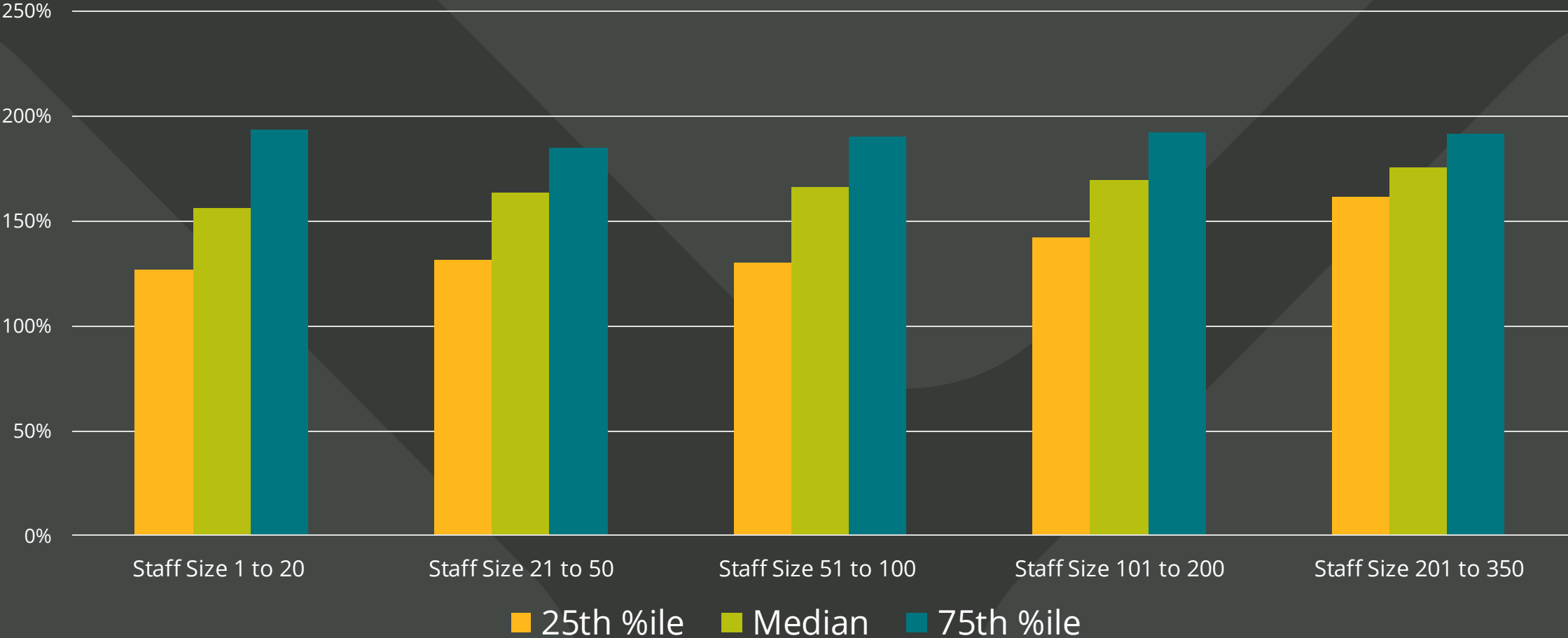
2024	2023	2022	2021	2020
\$179,026	\$170,743	\$159,595	\$153,504	\$155,041

Operating Profits per Total Staff

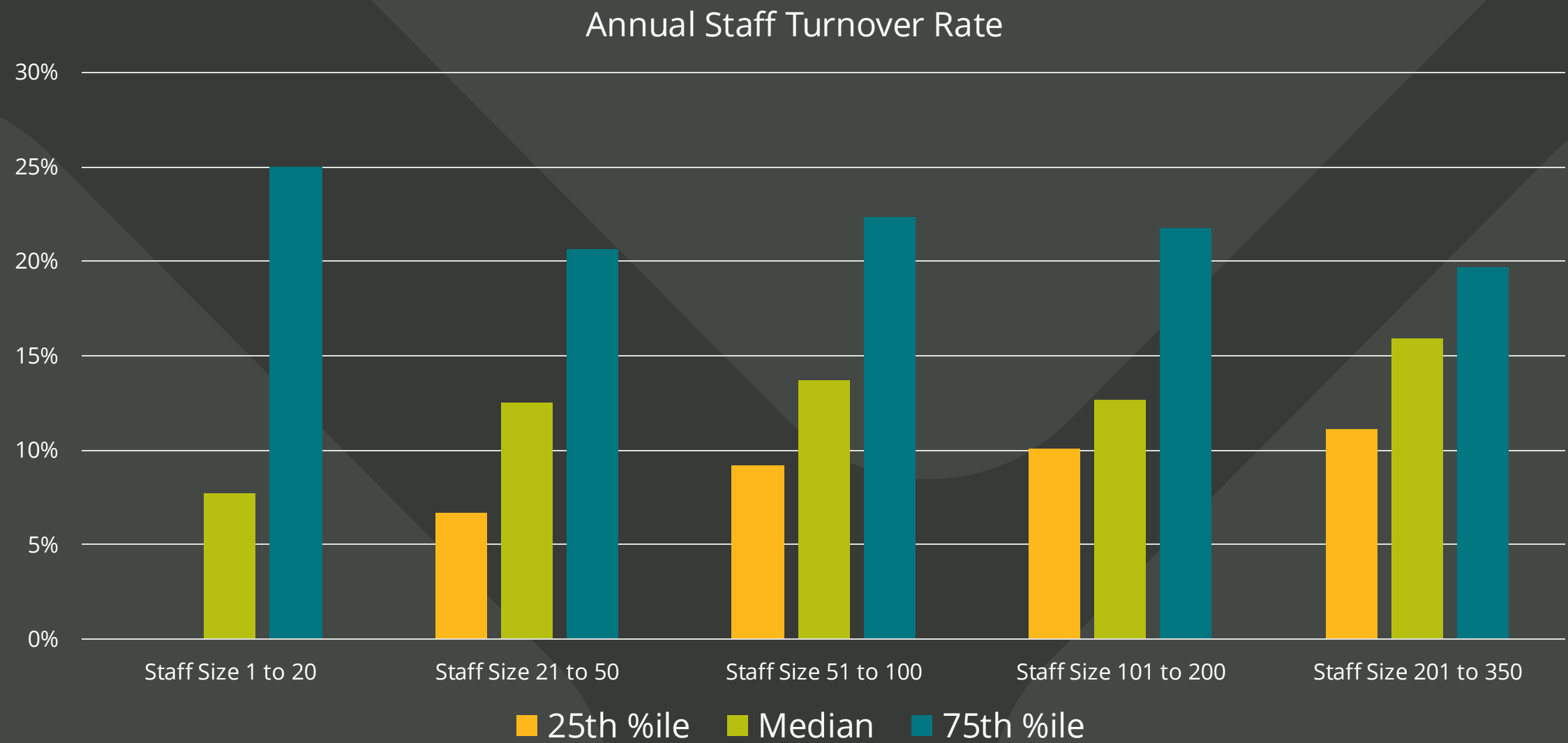
2024	2023	2022	2021	2020
\$30,827	\$33,378	\$29,998	\$26,467	\$28,501

Economies of Scale are Hard to Achieve

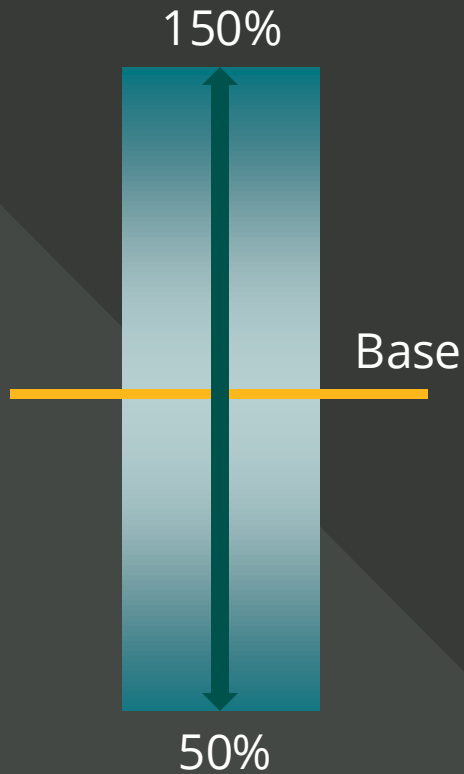
Operating Overhead Rate
Before Bonuses



Turnover is Still Painfully High



Cost to Replace One Employee



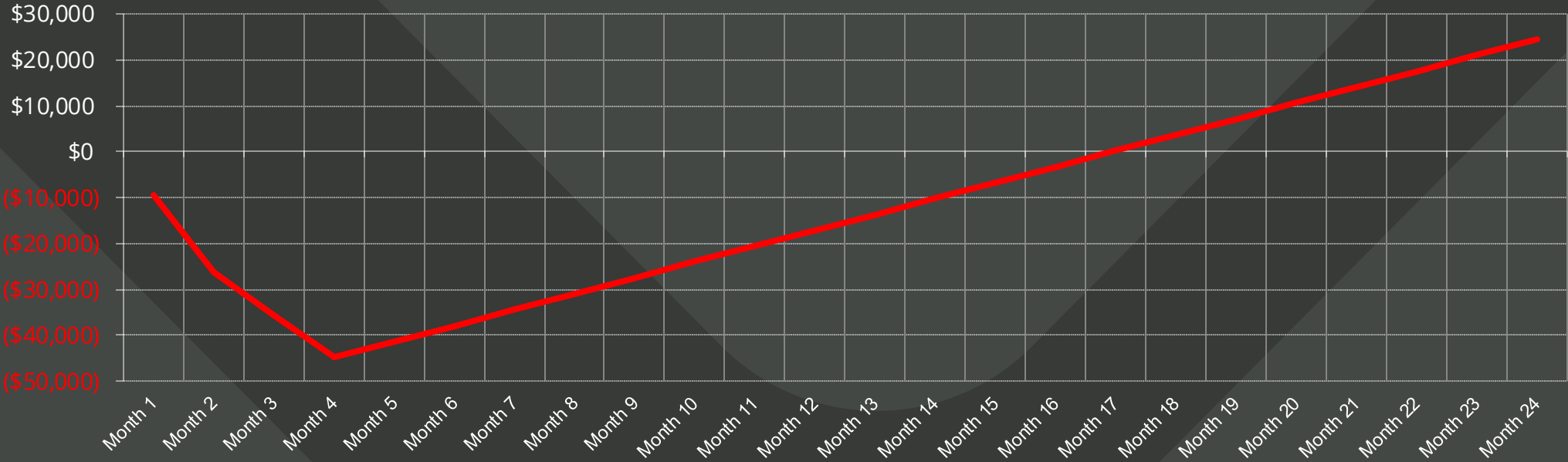
- Recruitment and training
- Lost productivity
- Project disruption
- Low morale / engagement

Let's Do The Math...

- Median A/E salary cost per PSMJ in 2024 = \$91,550
- Median staff turnover for a 50-person firm = 12.5% or about 6 employees
- Assume 75% of base salary for replacement costs
- Approximately \$410,000 per year
- Erases the annual profit of 13 people.

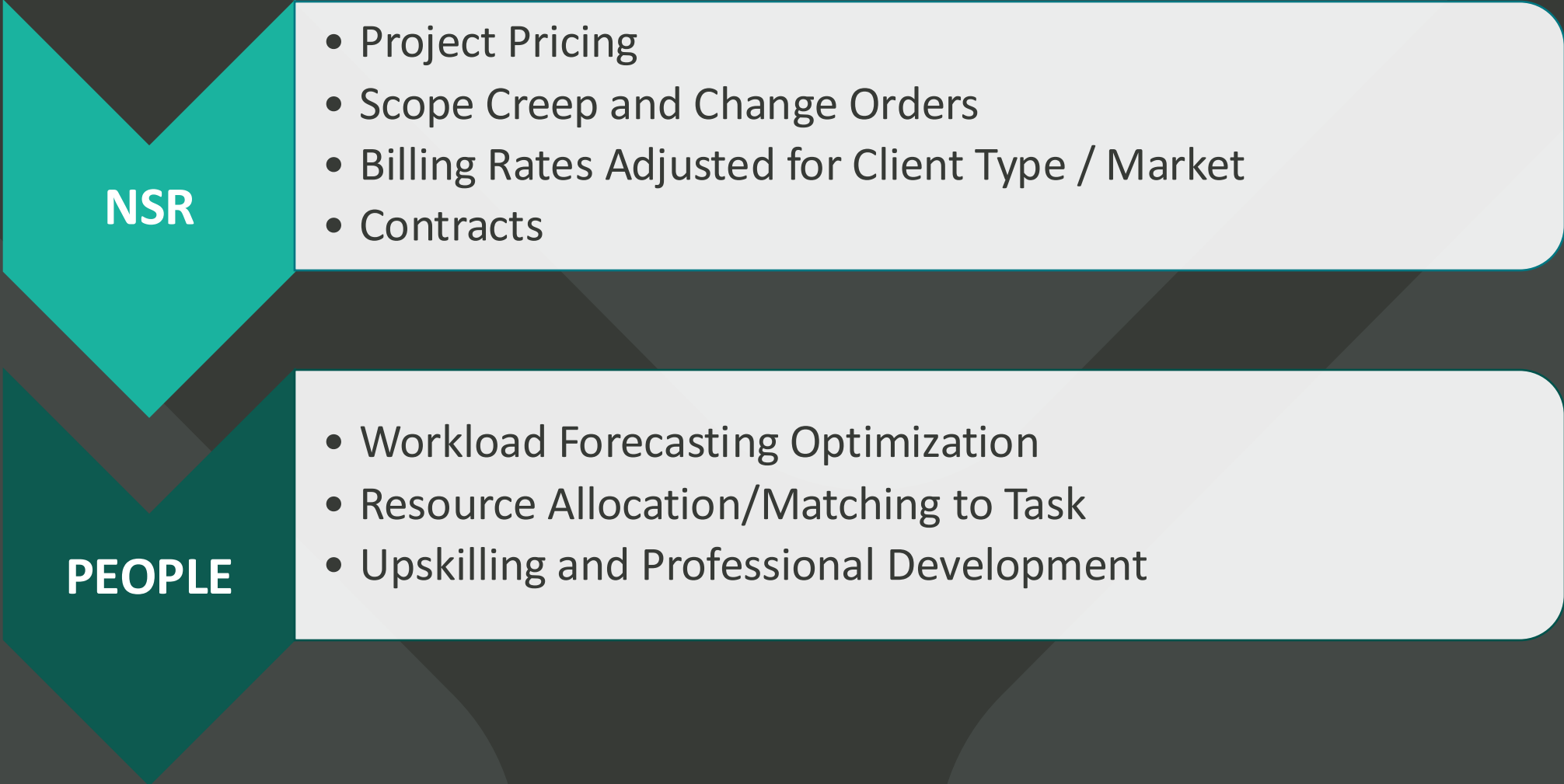
New Employee Cash Flow is Negative

New Employee Cash Flow



Fringe Benefit Rate	40.0%
Overhead Rate	160.0%
Chargeable %	60.0%
Billing Multiplier	3.20
Added Employee Computer/Software	\$7,500
Days WIP (Billing)	30
Days A/R (Collection)	75

Qualitative Growth



NSR

- Project Pricing
- Scope Creep and Change Orders
- Billing Rates Adjusted for Client Type / Market
- Contracts

PEOPLE

- Workload Forecasting Optimization
- Resource Allocation/Matching to Task
- Upskilling and Professional Development

Qualitative Growth

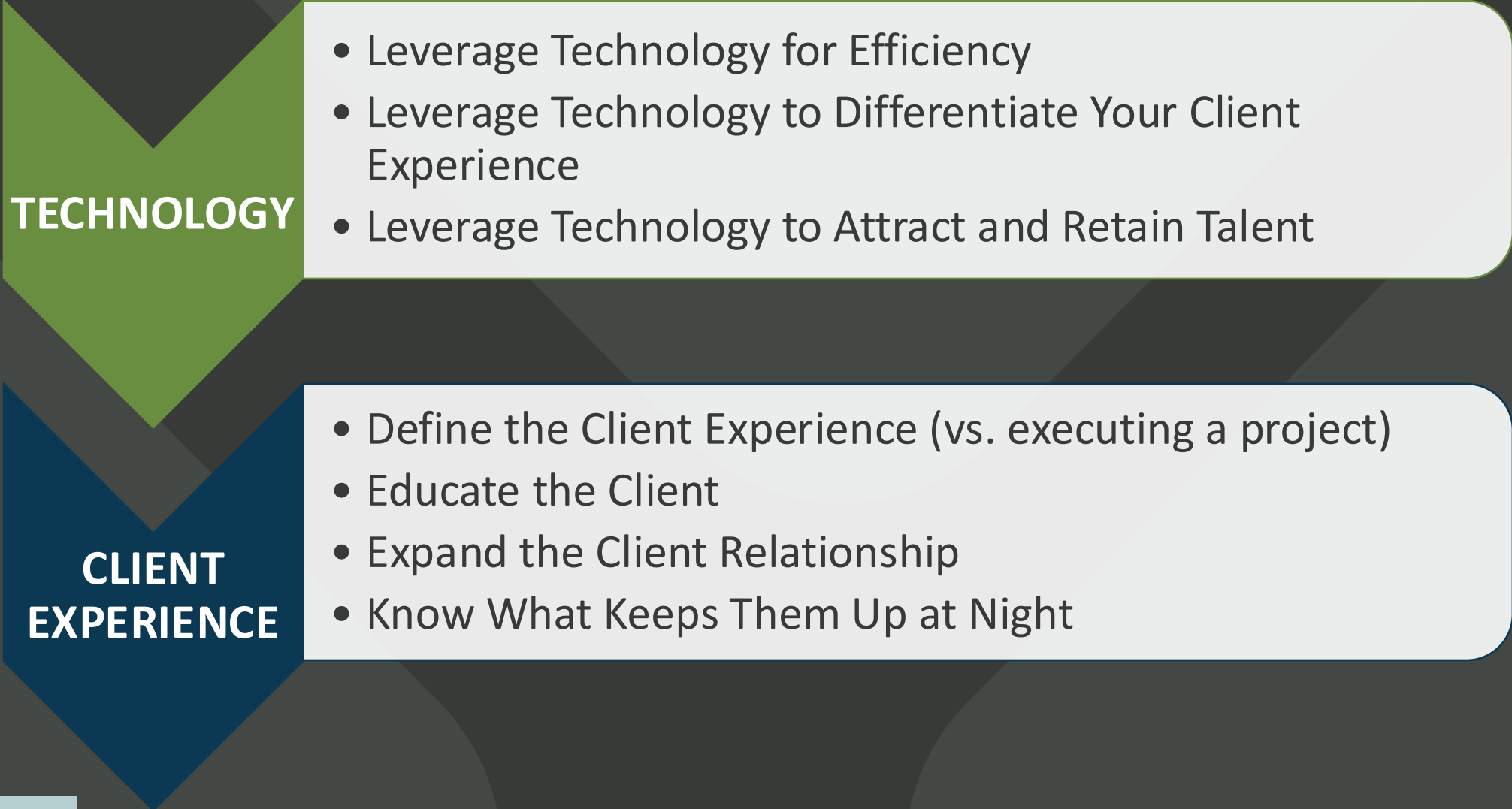
PROJECTS

- Project Management
- Risk Management
- Quality Control
- Client Education / Trusted Advisor

MARKETING

- Tell a Value-Added Compelling Story
- Ideal Client Profile
- Go No Go Process
- Scanning the Horizon

Qualitative Growth



TECHNOLOGY

- Leverage Technology for Efficiency
- Leverage Technology to Differentiate Your Client Experience
- Leverage Technology to Attract and Retain Talent

CLIENT EXPERIENCE

- Define the Client Experience (vs. executing a project)
- Educate the Client
- Expand the Client Relationship
- Know What Keeps Them Up at Night

The Balanced Scorecard (Harvard)



Poll

How do you use trends information and industry survey data? (Check all that apply.)

- Annual business planning
- Forthcoming strategic planning
- Benchmarking with other industry firms
- Aggregating information to share with firm leadership
- Information only – we don't do anything specific with the content



What's Next?

POST-ELECTION TAX UPDATE: INSIGHTS, PROJECTIONS & PLANNING

Post-election webinar on potential tax policy shifts and how they may impact your financial planning. End-of-year strategies and insights.



Virtual Event



Thursday
December 12, 2024



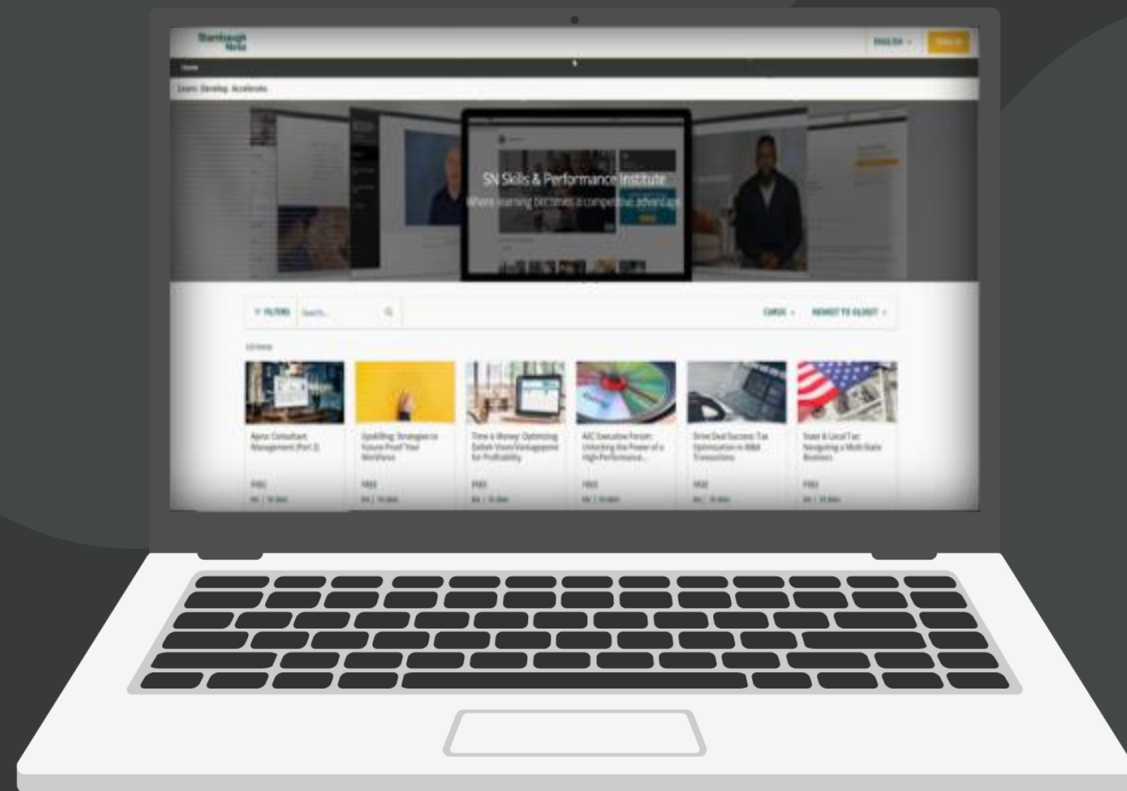
Jennifer G. Nelson, CPA
Managing Director,
Tax Group



Marla Miller, CPA, JD
Managing Director,
National Tax Office

SN Skills & Performance Institute

- ▶▶ On-Demand Recording and Handouts
- ▶▶ <https://spi.stambaughness.com>



Questions?



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Thank You!

Stambaugh Ness

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