

ACEC INSIGHTS

American Council of Engineering Companies of Massachusetts

September 2010

President's Message

By Lisa A. Brothers, PE, Vice President and COO, Nitsch Engineering



ACEC/MA held its 50th Anniversary and Annual Meeting on June 2, 2010. We celebrated, and continue to celebrate, 50 years of achievements and innovations that helped to shape our industry, advocate change and impact our society. Our keynote speaker, Paul Zofnass of the Environmental Financial Consulting Group (EFCG), provided a look into the future of our organization. A summary of his comments is included in this issue of *Insights*, and his PowerPoint presentation is posted on the ACEC/MA website.

The celebration also acknowledged, among many other items, our past presidents. I am honored and humbled to be following in the footsteps of these leaders as I serve as president of ACEC/MA in the coming year. I am appreciative of the opportunity to advance the vision and goals of ACEC/MA by working with the members, and alongside the 2010–2011 Board of Directors, who are incredibly dedicated, hard-working, passionate and vocal individuals committed to this great organization.

I would like to personally thank our exiting president, David F. Young, PE, of CDM, for his strong leadership over the past year. Mr. Young guided the organization

on many levels, with one of his most notable achievements being the passing of the Qualifications-Based Selection (QBS) legislation that ACEC/MA filed and ultimately helped pass into law. Mr. Young will continue to be involved with QBS as there is still much more work to be done. I would also like to congratulate all of you who have contributed over the years—ACEC/MA would not be here without your support!

The coming year will be exciting as together we explore new opportunities that will further strengthen our mission. As the “Voice of the Engineering Community,” I see us continuing to find ways to make that voice stronger. As president, I encourage us to focus on our three-year strategic plan, which has three primary goals:

1. Maintain recognition by all ACEC/MA members as the advocate for the promotion and protection of their business interests;
2. Enhance the financial strength of ACEC/MA; and
3. Maintain, diversify and grow the membership of ACEC/MA.

Within this plan, there are two items that I feel will make our “voice” stronger: communication and diversity.

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Engineering Industry Trends

By Paul Zofnass, President, Environmental Financial Consulting Group



The ACEC/MA 50th anniversary celebration featured keynote speaker Paul Zofnass, President of the Environmental Financial Consulting Group (EFCG), a New York-based financial consulting firm that advises the engineering/consulting (e/c) industry, including many ACEC/MA member firms, and provides guidance on merger and acquisitions, financial capitalization, peer benchmarking analysis, industry information and strategic planning. EFCG has been surveying the top 200 firms in the industry for that past 20 years.

During his presentation, Mr. Zofnass shared his observations on industry trends and thoughts on factors to remain successful in the coming years. A summary of his presentation follows:

1. Great Industry and Business: Historical data shows that the e/c industry is a great business to be in.

A Growth Industry: Our industry has been growing during the past 15 years at an average annual rate of 7.5%, exclusive of acquisitions. That represents a growth rate of roughly 50% more than the overall US GDP during this same period of time. In fact, as Chart 1 on page 8 shows, the e/c growth rate exceeded the US GDP growth rate in all but four of the past 15 years. I think it is fair to define an industry growing at a rate 50% greater than the US GDP to be a “growth industry.”

Increased Profitability: While once considered a “low margin” business, the industry has improved its profit margins consistently over the past 15 years from a

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Strategic Networking

By Donna Maltzan, Business Development Consultant and Trainer

Networking strategically lessens dependence on serendipity. If you go where the fish are, and you bring the right lures, your luck will be better than trying to catch salmon in Arizona.

Strategic networking requires research and preparation, which will improve your results tremendously. This article outlines the key steps in networking strategically.

Ideal Client Profile(s). The first step in strategic networking is to identify a specific client profile of interest to you and your firm. This could mean a specific project type, a specific client type, or both. Other typical parameters could include:

- Size of organization
- Location of headquarters
- Titles/roles of those who might typically decide to hire you for this project type
- Reputation

A potential client who is likely, over time, to have more than one project for you or your firm is usually more desirable. What criteria will tell you that this prospect is likely to have repeat business?

Research. Once you've identified a target client profile, your next step is to research where people from this type of organization, with this type of title or role, typically network. If you already have some or even one client of this type, then you have an excellent source of information. On the other hand, networking to meet prospective clients of a type that is brand new for your firm is very valuable; often the only way to get started with a new project or client type is by making a personal connection through networking. A personal connection can be the key to overcoming holes in your firm's resume.

If you have no current clients to help you with this investigation, here are some ideas from Frances Gretes (frances.gretes@verizon.net) of Gretes Research Services, who specializes in research for the A/E/C industry:

- Gale's Encyclopedia of Associations is a good source for finding associations by sector. (If you know the project type, then you know the sector.)
- A large association, institution, or agency in the same sector often has a "resources" page on its Web site, which typically leads to a list of related organizations.

- Read the biographies of leaders at a target client who fits your profile, looking for their affiliations (board memberships, committee involvement, membership, etc.).
- Check LinkedIn or do a news search to turn up additional possibilities.

Other consultants are also a great source of information about where to network to meet your targeted client type.

Once you have identified one or two possible networking opportunities, you could:

- Confirm the make up of that organization's membership with an association or conference administrator.
- Ask to attend a "sample event" and ask for introductions from the administrator.
- Make it a standard question to ask attendees who seem to fit your target profile, "What other networking events do you attend, and why?"

Often the only way to get started with a new project or client type is by making a personal connection through networking. A personal connection can be the key to overcoming holes in your firm's resume.

Research, Continued. After you identify a few networking opportunities that seem likely to attract your target client or project type, ask for a membership directory (this may not be made available unless you become a member) and ask for a list of attendees for events you do attend. Sometimes these lists are available in advance, sometimes an attendee list is not available until after the event. Use these lists to:

- Look for anyone you or someone else from your firm may already know.
- Develop a list of "target firms" who fit your ideal profile.

Next, focus your list. Hundreds of prospects are useful for marketing activities (e-mailings, adding to your newsletter distribution list, etc.) but 10 to 20 great prospects are more useful for strategic networking. Use your target list to:

- Ask if anyone from your firm already knows someone there.
- Check with other non-competing consultants who may already know someone from your target list.

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Risky Bidding Practices

Mike Herlihy, Executive Vice President and Partner, Ames & Gough, Inc.



Recently, I presented a session on shop drawings risk control to a group of project managers at one of our clients' offices. During the session, we digressed into a discussion of what each PM felt were important qualities for a prospective client to possess. As we assembled the list, I commented that perhaps when considering two possible projects on which to bid, a PM might choose to bid on the project with an owner who seems to possess most of these important qualities. To that, one of the PMs remarked, "What makes you think we have a choice of projects to bid?"

It is understandable that as your engineering firm struggles to find work in this tough economy, there may not be many bid options. As a result you might feel the need to compromise on bidding practices. Still, bidding on the wrong project opportunity can be more financially damaging to your firm than trying to get by with less work. Despite the pressure to find new work, don't resort to risky bidding practices that can financially harm your firm. These potentially damaging practices include selecting improper project types, choosing to work for the wrong client, agreeing to inadequate compensation and assuming too much risk in a contract or agreement.

Improper Project Selection

With less opportunity for work, your firm may need to consider project types with which you have little or no experience. However, there is a right way and a wrong way to approach such work.

Many firms utilize "go/no-go" project decision matrices to assess which projects to bid. When considering a new project type, it is important to use such a matrix to determine the risks associated with the project and whether your

If you are going to bid on a new project type, understand the risks and have a plan in place to manage them. Make sure that funding is adequate and sufficient time is built into the schedule to perform your services.

firm can effectively manage these risks. Do you understand what the risks for the project type are? Does your firm have the skills to effectively manage those risks? If not, can you partner with another firm or supplement lack of experience through hiring subconsultants?

Not too sure what the risks might be with regard to a new project type? Good sources of this information can be your firm's professional

liability insurer. Insurers maintain claim data that identify the riskier project types as well as data for common causes of loss. They use this data to apply rate surcharges for work that tends to have higher frequency and severity of loss. Insurers are more than willing to share this data with their design firm policyholders as such knowledge might prevent claims.

Consider partnering with, or hiring as a subconsultant, a firm that specializes in this new project type. Even if you are successful at identifying the risks you might face with the project, your staff may not have the experience to effectively manage those risks. Bringing in a specialist can provide this much needed experience and help your firm gain the knowledge it needs to pursue similar projects in the future.

If you are going to bid on a new project type, understand the risks and have a plan in place to manage them. Make sure that funding is adequate and sufficient time is built into the schedule to perform your services. Be sure to work out with your staff and any subconsultants a plan to manage any complexities in the design or construction.

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SPOTLIGHT: LISA BROTHERS

To say ACEC/MA's new president Lisa Brothers is busy is an understatement. As Chief Operating Officer at Nitsch Engineering, Ms. Brothers oversees the day-to-day operations of the 60+-person firm and continues to oversee the management of a number of firm projects.

But that's only the beginning. In addition to those responsibilities, Ms. Brothers maintains an incredibly active role within the greater engineering community, having served on a number of committees and advisory boards for such organizations as the Boston Chapter of the Women's Transportation Seminar (WTS), the Massachusetts Government Appointments Project's (MassGAP) Transportation and Construction Committee, the Town of Wilmington's Conservation Commission, Boston Architectural College Board of Overseers,

and UMass-Lowell's College of Engineering and Center for Women and Work.

Ms. Brothers' close relationship to and involvement in the Massachusetts' engineering community is now shaping her ambitious agenda as president of ACEC/MA, which focuses especially on communication. As Ms. Brothers sees it, ACEC/MA is the voice of Massachusetts' engineering industry and has the responsibility to do everything it can to speak clearly, professionally and consistently on the issues and events that are meaningful to the industry.

Her success in communicating those kinds of issues and truly making an impact is evident by the many honors she has received for her contributions to the community. She has been recognized by several engineering associations for her commitment to the industry, including the

2008 Woman of the Year honors from WTS Boston, and Citizen Engineer and Lester Gaynor awards from the Boston Society of Civil Engineers, to name a few; by her alma mater, UMass-Lowell, as a distinguished alumni; and by the Greater Boston Chamber of Commerce for her accomplishments as a rising business executive.

With all of these responsibilities, Ms. Brothers still manages to find time to raise a family with her husband, Tom. They have two children, Ryan and Colleen. The Brothers clan enjoys the outdoors—biking, white water rafting, going to the beach, and camping to name a few activities.

Needless to say, with Ms. Brothers' enthusiasm, commitment, and drive leading the way, ACEC/MA—and the Massachusetts engineering community—has a promising year ahead.

Evolution of Sustainability and Industry Movement Toward Net-Zero

By Stephen A. Chapman, PE, Vice President, Fay Spofford & Thorndike



Last May, the ACEC/MA Programs Committee, in cooperation with the ACEC/MA Building Engineering Committee, held a morning session at Northeastern University's International Village—a LEED Gold, mixed-use, residence hall recently constructed on Tremont Street in Boston, adjacent to the MBTA's Ruggles Station—to discuss sustainability and net-zero building goals. The session featured keynote speaker Barbra Batshalom, Executive Director of the Green Roundtable, and presenters Peter Newton, Project Manager, Kleinfelder/SEA Consultants; Joseph Ranahan, Energy Manager, Northeastern University; Cassandra McKenzie, Project Engineer, Northeastern University; and Brett Bentson, Project Architect, Kyu Sung Woo Architects.

Ms. Batshalom focused on the current trends in sustainability and introduced the concept of “net-zero.” She noted that although LEED certification has been the recent benchmark for sustainable designs and construction, the new trend and the current challenge is reaching net-zero energy usage and production. Several executive orders have been issued by federal and state governments requiring implementation of net-zero practices.

A federal order issued by President Obama on October 5, 2009 sets sustainable goals for federal agencies and focuses on making improvements to their environmental, energy and economic performance. As part of the order, all new federal buildings will be required to be designed to achieve net-zero energy use by 2030. Similarly, and partly in response to this order, several references to net-zero requirements are being seen within current requests for proposals from various federal, state and municipal agencies.

In working with clients on sustainable projects, Ms. Batshalom emphasized the need to establish a clear understanding of a client's expectations, objectives and timeline for achievement. As an example, when speaking about net-zero energy, clarification is often needed between net-zero “site” energy versus net-zero “source” energy. The means by which net-zero will be evaluated is also critical and will depend greatly on the analytical models to be used as part of the

design process. Specific examples of energy modeling and results from past projects were presented for reference.

Ms. Batshalom also raised the question “How Green Is Your Firm?” and introduced the Sustainable Performance Institute's (SPI) certification program. She noted that the LEED rating system measures building performance and the fluency of an individual to implement the system by defining “what needs to be done,”

Although LEED certification has been the recent benchmark for sustainable designs and construction, the new trend and the current challenge is reaching net-zero energy usage and production.

but does very little to define “how is it to be achieved.” The SPI certification program, however, recognizes a firm's capability to deliver consistent, high quality sustainability services. The first-of-its-kind sustainable certification program for the design and construction industry, the SPI program was described as falling between LEED and ISO certifications. It was also said to be a somewhat lengthy and time-consuming process. However, upon receiving SPI certification, a firm will be recognized as having the highest level of commitment to green design and will be able to present a higher level of credentials to prospective clients.

In closing, Ms. Batshalom made mention of the NEXUS-Green Building Resource Center located on the 7th floor of 38 Chauncy Street in downtown Boston and encouraged all to visit and take advantage of the information available there.

The next speaker, Peter Newton, presented a low-impact-design case study of the recently designed water treatment facility in the Town of Framingham. The project was originally scheduled to be completed over an 18-month period but was completed within 20 weeks in an attempt to meet deadlines for American Recovery and Reinvestment Act (ARRA) funding. Mr. Newton talked of the need to blend the new facility into the existing topography while being sensitive to the adjacent residential neighborhood. He also described

the designer's desire to maximize the use of natural light and presented the concepts evaluated by the designers to maximize natural light use based on computer modeling. Mr. Newton presented several facility depictions prepared during the design phase of the project and emphasized the importance of project team coordination through the use of an integrated design process.

Joseph Ranahan and Brett Bentson spoke specifically to Northeastern University's expansion from a commuter school during the 1970s to today's self-contained, major university campus, with a particular focus toward the recently constructed International Village Residence Hall. It was noted by Mr. Ranahan that although Northeastern has undergone a 50% expansion in gross square footage over the past 20 years, the school's metric tons of carbon equivalence (CO₂e) has been reduced by nearly 40% on a per thousand square foot basis. He attributed this drop to an increased use of natural gas versus an earlier dependency on fuel oil, as well as the school's conscious efforts to be “green.” He noted that Northeastern University is one of only 13 colleges nationwide to achieve a perfect score on a recent sustainability scorecard.

Specific to the International Village Residence Hall, Mr. Bentson identified the various design elements of the building that enabled it to achieve LEED Gold certification, including remediation and redevelopment of a brownfield site, and the use of recycled materials extensively within the building interior and exterior. Energy efficiency was said to be key to the building's success, with modeled energy predictions at 20% less than an average building of this type. Mr. Bentson added that LEED credits were also obtained through the integration of a green roof element within the project's design.

The program concluded with a tour of the International Village complex led by Cassandra McKenzie and Mr. Bentson.

Steve Chapman is a Vice President with Fay Spofford & Thorndike (FST) and currently serves as Co-Chair of the ACEC/MA Programs Committee. He can be reached at 781/221-1270 or schapman@fstinc.com.

Inaugural ACEC/MA Odyssey Leadership Program Graduates 19

By Scott A. Miller, PE, President, Haley and Ward, Inc.

A June 10th graduation ceremony highlighted the efforts of 19 ACEC/MA members as they completed the inaugural ACEC/MA Odyssey leadership program. Starting in September 2009, the participants met for 9 consecutive monthly sessions to develop their leadership skills through interactive discussions led by a pair of educators, each with over 25 years of experience.

ACEC/MA developed the Odyssey program to follow its successful Emerging Leaders program. Odyssey promotes leadership skills through four basic foundations: understanding oneself, developing a well defined personal vision, understanding others and communicating to motivate others. The program is intended to focus on key leaders within ACEC/MA member firms to help them build on skills learned through the Emerging Leaders program and similar development classes.

The group met together for eight formal daytime training sessions at the Babson Education Conference Center in Wellesley. The ninth session, held at The Engineering Center in Boston, was a one-on-one session with class educators Olin and Laura Jennings to focus on each participant's personal vision and development requirements. ACEC/MA worked with the Jennings Group, which specializes in leadership training for

engineering, architectural and other technical firms, to bring the Odyssey program to a local training site at a discounted rate for ACEC/MA member firms.

The graduation marked the first time that the Odyssey program was offered by ACEC/MA, which also this year marked the 10th anniversary of its Emerging Leaders program. The new offering was well received by its initial

Odyssey promotes leadership skills through four basic foundations: understanding oneself, developing a well defined personal vision, understanding others and communicating to motivate others.

participants. Joseph Cormier, a Sector Manager at Kleinfelder SEA, noted his own gain, commenting, "The Odyssey program provided me with a practical tool to understand what motivates me and those around me. This greater understanding has given me the skills, knowledge and self-confidence to further my leadership ability."

Participant sponsors have also acknowledged the value of the program's skills development as participants progressed through the year. Michael K. Powers, a Principal at Symmes

Maini and McKee Associates, has noted "The ACEC/MA Odyssey program offers the perfect catalyst for educating aspiring leaders to do better and to seek improvement in their personal development as the engineers of tomorrow. If the results of our first graduate are any indication, we expect to see more and more value of the program to us in the future."

Enrollment is now underway for the next session of Odyssey. The 2010–2011 program will start with monthly sessions in October and continue into the spring of 2011. To maintain the successful interaction among the group, the program is limited to 20 participants. The Jennings Group will continue to lead the training sessions at the Babson Education Conference Center. While the enrollment is open to all participants, ACEC/MA member firms will receive a discounted tuition. Additional information and enrollment details are available at www.acecma.org or by contacting ACEC/MA at The Engineering Center at 617/227-5551.

Scott A. Miller, PE, is the President of Haley and Ward, Inc. in Waltham, Massachusetts. Scott chairs the ACEC/MA Leadership Education Committee. Founded in 1897, Haley and Ward provides professional engineering services for public works projects throughout New England. Contact Scott at 800/339-3980 or smiller@haleyward.com.

ACEC/MA Odyssey Leadership Program 2010 Graduates

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Weidlinger Associates, Inc.

Joseph B. Cormier, PE, MAS
Kleinfelder/S E A Consultants

Mary B. Hall, PE
GZA GeoEnvironmental, Inc.

Pedro J. Sifre, PE
Simpson Gumpertz & Heger Inc.

Paul Brinkman
Kleinfelder/S E A Consultants

Jennifer A. Ducey, PE
Fay, Spofford & Thorndike

Kate Kaynak
The Jennings Group

Wayne E. Siladi, PE
Weidlinger Associates, Inc.

Sandra A. Brock, PE, LEED AP
Nitsch Engineering

Mary Ellen E. Eagan
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President's Message

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Communication

First, we need to focus on our internal communications. It is imperative that we continue to clearly communicate our values to our members, and our potential members, and how they can benefit from what we have to offer.

Next, with our many committees, we need to find a way to communicate more efficiently and effectively to ensure information is shared across the groups.

And, finally, we need to expand and work to improve our industry's image through our external communications.

Diversity

In today's increasingly competitive environment, interaction and collaboration among people from diverse cultures, beliefs and backgrounds is paramount to the growth of our industry. We need diversity to develop new approaches and ideas and to become more creative in our thinking.

At ACEC/MA, we can find diversity in many areas, such as:

- the size of the firms we represent
- the services our firms provide

- our programming (topics and speakers)
- our board and committees

Maintaining diversity truly takes a commitment, and I'm proud to say that the ACEC/MA Nominating Committee has succeeded in encompassing all of the areas mentioned above when they appointed the 2010–2011 Board of Directors. This board represents large and small companies; civil, structural, mechanical, geotechnical and environmental engineering firms; and minority and women members. This didn't happen by accident. The organization's strong commitment to diversity made it happen. As we make decisions in the coming year, it is important to keep diversity at the forefront of our minds.

So, during my tenure, we will continue, with your active participation, to drive the three primary strategic goals of ACEC/MA with a slightly stronger focus and commitment on two items—communication and diversity—on a path forward in strengthening our “voice.”

Lisa A. Brothers, PE, LEED AP BD+C, is a Vice President and COO at Nitsch Engineering in Boston. She can be reached at 617/338-0063, x220 or lbrothers@nitscheng.com.

Changes to Massachusetts Open Meeting Law Effective July 1, 2010

New Massachusetts Open Meeting Law requirements are effective as of July 1, 2010. Some of the more significant changes in the requirements include:

1. The Office of the Attorney General now have jurisdiction over the enforcement and interpretation of the local open meeting law.
2. Content of a ‘meeting’ notice must now include a more specific listing of matters reasonably anticipated for discussion.
3. Notices still must be posted not less than 48 hours prior to the meeting; however, Saturdays can no longer be counted toward satisfying the 48 hour requirement.

Information regarding the Open Meeting Law can be found on the [Attorney General's web site](#). Local cities and towns should be contacted for information regarding implementation of the Open Meeting Law in their community.

Mary Hall Retiring from the Board of Editors

The Communications Committee/*Insights* Board of Editors would like to express our gratitude to Mary Hall, who has volunteered her professional talents as well as her technical and editorial skills to the committee since 2000. Her dedication and hard work on the committee are exemplified by the success of the *Insights* newsletter which is read nationally. She is retiring from the board to focus her efforts on her many roles within ACEC/MA including her position as President-Elect for 2010–2011. She is a pleasure to work with and we wish her continued success in her leadership position with ACEC. Good luck, Mary!

ACEC/MA Education Corporation Inaugural Golf Tournament

Monday, September 20, 2010

Marshfield Country Club, Marshfield, MA (www.marshfieldcc.com)

- 11:00 AM Registration
- 12:00 AM Shotgun start with box lunch provided
- 5:00 PM Awards ceremony and raffle with hors d'oeuvres
- 6:00 PM Closing

Proceeds benefit the ACEC/MA Education Corporation Presidents' Scholarship Fund.

**Cost is \$200 per person. Please send checks payable to:
ACEC/MA Education Corporation, One Walnut Street, Boston, MA 02108-3616**

For more information regarding registration, please contact Susan D'Olimpio at 617/305-4111 or sdolimpio@engineers.org. For any golf/program questions, please contact Kevin Hanley at 781/380-7766 ext. 12 or khanley@smcsurvey.com.



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Engineering Industry Trends

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CHART 1: E/C Industry Growth Rate vs. US GDP

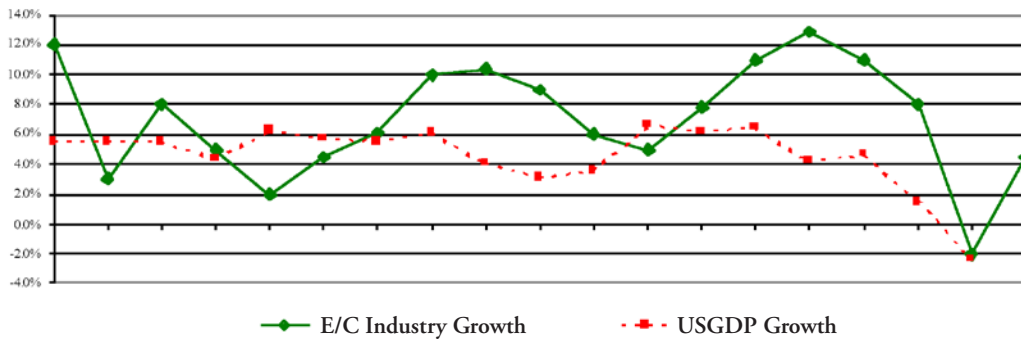
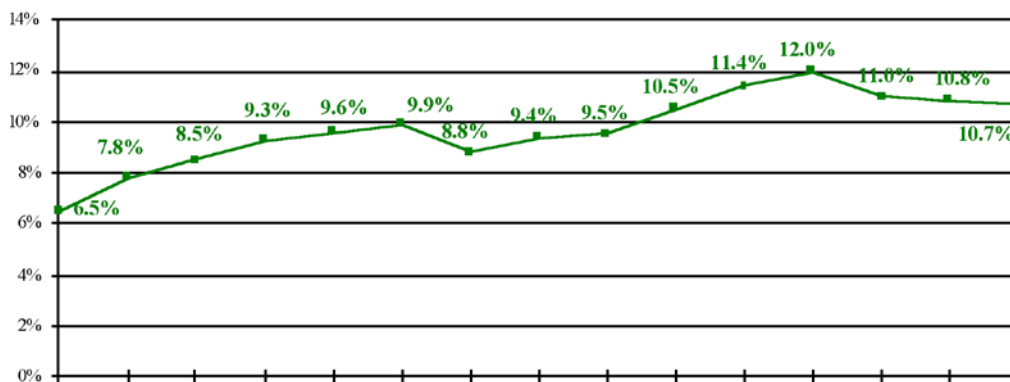


CHART 2: Profit Margin (EBIBT/Net Revenues)



roughly 5% EBIBT/Net Revenues ratio to roughly 11% (see Chart 2 above).

Maintaining Profitability in Tough Years: This industry has been able to maintain its historically high levels of profitability during the last two years. Even though the industry had its worst revenue year in the last 15 years, the profit margin held up at 10.8% (as shown on Chart 2), its fourth-highest margin year of this 15-year period.

Good Industry: It is a good industry that does good things and provides benefit to the public. We should all be very proud to be serving in it.

2. Outlook Is Excellent: The long-term outlook over the next decade is extremely positive for the kind of services that this industry provides. Ever since the beginning, people have wanted better homes, better facilities, better infrastructure, better travel and communication opportunities, better healthcare facilities, more physically comfortable and healthier environments, better access and usage of the

physical and natural resources that exist in the world, with better and more opportunities to trade and otherwise benefit from synergies that commerce can provide. It is this demand that the *e/c* industry attempts to serve. Only now, and for the first time ever, we are up against a new set of challenges. Because of the growth of worldwide civilization and economy, we are outstripping the resources available to us—clean air, clean water, clean minerals—and with our unquenchable thirst for more, we are running up against the constraints of what the earth can support. I see no business, or group of firms, in a better position to deal with this challenge, to reconcile this drive for “more” with the availability of “less,” than the engineering and consulting industry and the science, knowledge and creativity that supports it.

We can add one more dimension to this puzzle: the limited supply of engineering and environmental scientists graduating from universities each year. If the demand for our services is growing, and the supply of individuals trained and capable to deliver those services is

limited, the result should likely be a stronger pricing environment. Such an observation gives further reason to believe in continuing strength for our industry over the coming years.

3. More Business Orientation: With growth and opportunity come challenges. The increasing size and complexity of the organizations that perform these services require a discipline not taught in the engineering and scientific schools—that of economic efficiency, business and financial metrics, cost/benefit analysis and a focus on the “bottom line.” I believe that one of the major reasons why profitability in this industry has been increasing, and along with it the capacity of firms to pay bonuses, make distributions, and achieve appreciation in their stock prices, is the increasing focus on the “business” of engineering and consulting.

The increasing use of “peer benchmarking analyses” (comparing one’s firm along multiple operating and financial metrics with its most appropriate peers) can be an eye-opening experience that identifies where improvement is necessary, and where opportunities for financial improvement and profit enhancement exist. As the industry gets more sophisticated in measuring itself against peer firms and developing metrics to measure its own performances on the myriad of metrics that lead to financial and operating efficiency and profitability, there is a natural, human tendency to want to improve. If you can’t measure, you can’t manage. If you can’t compare, you can’t improve. In a competitive capitalistic environment in which we are operating, you need to keep improving to survive.

4. Managing Your Balance Sheet: One of our industry’s most glaring financial weaknesses is its traditional failure to “manage the balance sheet.” In its most simple form, this shortcoming is reflected in the fact that for our core service, we get paid for an hour’s work, roughly three and a half months after we perform it; yet we pay most of the expenses related to that work, on average, within one week (assuming you pay your employee salaries biweekly). Who finances that roughly three-month gap in cash flows? And how did the industry ever design such a negative imbalance in payments? In any event, the result means that to run an *e/c* firm requires

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a huge amount of capital to cover this cash flow gap, which has to come from the partners, shareholders and/or banks; this is what we refer to as the “investment capital.” If you can reduce the amount of investment capital required to finance your assets, you can make your financial lives a lot easier, you can finance growth more easily, you can internally transition ownership more easily and you can achieve a higher return on your equity investment. This is why managing your balance sheet is so important for an e/c firm.

Now, how do you manage your balance sheet? In our view there are three key areas on which to focus:

- a) *Minimizing your assets to the extent you can.* Your biggest target here is likely to be reducing your receivables (this entails getting your bills out quicker and getting the receivables paid sooner). But it also entails minimizing the amount you keep in cash (particularly in today’s financial environment, where the return on that cash is far below the cost to finance that cash) and keeping net fixed assets and other assets as low as possible, because for every additional dollar of assets you have, you need an additional dollar of capital.
- b) *Maximizing “Free Capital.”* What is “free capital”? It is any capital that doesn’t cost you anything, e.g. trade payables, due to subs, accrued liabilities, deferred taxes. Why maximize free capital? Because whatever you don’t get from free capital, you need to borrow from a bank (at an interest rate) or raise from your equity holders (who expect an even higher return on that).
- c) *Balancing debt and equity judiciously.* Too much debt is dangerous, but no debt is financially inefficient since debt is generally regarded as less expensive than equity.

Managing your balance sheet properly is a financial science and art in itself but increasingly critical to improving the health of your firm. Again, comparing your ratios with those of other similar peer firms is probably the most effective way of accomplishing this.

5. The Challenge of Internal Ownership Transition: One of the biggest challenges to

sustainability in an employee-owned e/c firm is the need to transition ownership from generation to generation. Failure to do this sufficiently, i.e. to pay out retiring shareholders, is frequently the trigger causing firms to sell out because of their inability to provide liquidity at reasonable valuations to their retiring shareholders. Interestingly, almost no other industry has as big a challenge with ownership transition as ours. This is because consulting engineering firms tend to be employee-owned, and employees ultimately retire. And, when those shareholders retire, they want to withdraw

Today, most financially savvy, economically sensitive people would say that value is a function of the earnings generation capability of an entity. Hence, it is earnings and earnings potential (not assets) that largely determine a firm’s ultimate “value.”

their capital. This challenge is even further increased by the amount of “working capital” required in this industry (primarily to finance the enormous level of receivables, as described above). And, the faster you are growing, the higher the receivables will be and the more capital needs to be retained in the company to support that growth. So, the need to finance revenue growth—hence, receivable growth—combined with the need to pay out shareholders’ equity as they retire, presents a major problem for a typical employee-owned e/c firm.

6. Understand and Manage Your “Capital Flows:” Given these challenges, to remain a viable, “sustainable,” employee-owned firm in this industry, it becomes critical to understand and to manage the “capital flows” of your business. By capital flows, we are referring essentially to cash, as provided by free capital, debt capital and equity capital, and as needed to finance your assets. There are a number of ways to improve your capital flows:

- a) *Improve profitability.* Increase not just your “operating margin,” meaning your “return on sales” or “return on revenues,” but also your “return on assets,” “return on invested capital,” and “return on equity.”
- b) *Manage your balance sheet.* The tighter your assets, the easier to finance internal ownership transition and finance growth.

c) *Balance growth with profitability.* The faster you grow, the more capital you will need. There is a “rule of thumb” we’ve developed by observing several hundred e/c firms: your annual growth rate cannot exceed your “operating margin” (defined for this purpose as earnings before interest, bonus and taxes, divided by net revenues).

d) *Reassess your internal valuation.* A lower valuation will generally facilitate internal ownership transition, as it will cost less for the firm to buy back retiree shares. However, a lower valuation will make acquisitions financially difficult or impossible to do, constraining growth.

A capital flows analysis will become crucial to optimizing your own viability as an employee-owned firm.

7. Earnings, Not Assets, Drive Valuations

Today: Nearly 20 years ago, most employee-owned e/c firms valued themselves at “book value.” Today, probably less than 10% of firms over \$25 million in revenues value themselves at “book.” The primary reason is that “book value” is a backward-looking concept. Literally, book value can be defined as what the shareholders have invested in the company in the past, plus the profits that the company has had since then but has not yet paid out. Today, most financially savvy, economically sensitive people would say that value is a function of the earnings generation capability of an entity. Hence, it is earnings and earnings potential (not assets) that largely determine a firm’s ultimate “value.” In fact, unless you are planning to liquidate your firm, assets, in terms of defining value, are pretty meaningless. Taking it even further, you might say that the more assets that it takes to generate a certain amount of profitability, the less value the firm has. Why? Because a buyer will need to infuse more capital into an asset-intensive business to grow it than into a firm that can generate the same level of profitability with less assets.

8. Valuations Are Increasing: Valuations have been steadily increasing for firms in this industry over the past 15 to 20 years. Part of the reason is that more firms are changing their approach to valuation from book value to a value based upon earnings, which generally

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(depending upon the multiple applied to those earnings) yields a value significantly higher than 1x book value. Another reason is that many employee-owned firms have incorporated into their ownership configuration the use of an Employee-Owned Stock Plan (ESOP), and ESOPs, under the ERISA laws that regulate them, require an annual outside appraisal for the valuation process at fair market value.

Fair market value is increasingly understood as a value well in excess of the traditional book value measurement (assuming the firm is reasonably profitable). Furthermore, buyers are willing to pay more for companies they acquire than they used to. That's partially due to buyers' access to capital, either through the stock market or private equity capital; it is also partially due to the perception that larger firms have certain strategic advantages to win the bigger projects and grow faster ("market share begets market share").

9. Mergers and Acquisitions Continue to Consolidate the Industry: In this respect, the e/c industry is the same as just about every other industry. The need to provide "one-stop shopping" for clients and customers has been providing certain benefits to the larger, more diversified firms. This tends to be the case particularly on the large projects, which also

tends to provide the larger firms a certain competitive edge in recruiting talent since most young engineers want to work on the biggest and most exciting projects. In a period when internal growth rates are in the 5–10% range, a steady diet of periodic acquisitions can double the overall growth rate, vis-à-vis a firm doing no acquisitions.

Another reason driving publicly-traded e/c firms to make acquisitions is that they can generally purchase another firm at a multiple of earnings lower than the value of their own stock. Or to use financial terms, acquisitions are "accretive" to earnings per share. So for all these reasons, M&A activity has been extremely high in this industry over the past few years, despite the financial crunch and difficult economy and, in our view, is likely to remain that way for the foreseeable future.

10. Preserving Viability as an Employee-Owned Firm: In our view, employee ownership is a great ownership vehicle for an e/c firm and has many advantages over other forms of ownership (e.g., corporate ownership, public market ownership, private equity ownership), and offers a perception of congeniality, professionalism, self-control, etc. more difficult to achieve with these other forms of ownership. On the other hand, in today's increasingly

competitive environment, where economic, financial and competitive realities are becoming more forceful, employee ownership poses greater challenges than ever before. The above points suggest some of the most critical challenges for the e/c industry and how employee-owned firms can best prepare themselves to remain a viable and thriving form of ownership. But employee ownership requires a far more disciplined business and financial approach than the traditional engineering mentality has been trained to perform. The firms that commit themselves to this discipline—that constantly attempt to improve through benchmarking, measurement, balancing key objectives, profitability, balance sheet management, capital flow models, reassessing their approach to internal valuation, compensation, ownership, and governance, and that can use selective acquisitions as a complement to organic growth and strategic optimization—will differentiate themselves as those that survive and thrive rather than those that will no longer be with us.

Paul Zofnass is President of the Environmental Financial Consulting Group, a financial consulting firm that advises the e/c industry and provides guidance on merger and acquisitions, financial capitalization, peer benchmarking analysis and strategic planning. He can be reached at 212/752-2203, or efcg@efcg.com.

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Strategic Networking

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- And, of course, if you have even one client of this type, check with them!

Having a good list makes it easy to solicit information internally and from other consultants. When you find a connection, you have several options:

- Ask for an introduction before a networking event.
- Arrange to be introduced at an event.
- Call that prospect directly and ask to meet at the event, using the connecting person's name.

More Research. Before attending an event, bone up on what's going on with this client or project type. If you were given a chance to propose on this project type today, what would you need to learn in order to propose effectively? This is what you need to know now in order to have a good conversation with a potential client. Key questions include:

- What are the current challenges?
- What are the trends?
- What are the latest innovations, and how are those innovations working?

Attend an Event. Be prepared to introduce yourself in a way that positions you and your firm for the type of project or client you've targeted. Follow up with any introductions you've arranged in advance, but your primary focus is to be present, to be in the moment, to find connections with whomever you do meet. Don't make hasty judgments about the value of the people you do meet. Instead, look for the connections you have with those who happen your way. Anyone attending an event where your prospects gather might ultimately provide a great introduction or become a good source of additional information. When you meet someone, focus on:

- Finding out what you have in common (personal, professional).
- Learning about the other person.
- Thinking of how to be helpful to those you are meeting.
- Learning why this person attends these events and their perception of the usefulness of this event or association.

Remember, great networkers are fundamentally generous and curious. A person who is focused only on themselves can never be a great networker.

Evaluating an Association. A good rule of thumb regarding evaluating an association is to give any particular organization two or even three tries before concluding, "This organization is useless." If you decide you have identified a good organization for your purposes, consider:

- Getting on a committee (especially one with members fitting your target profile).
- Presenting at this association. What do you or someone else from your firm know that is valuable to your target list?
- Summarizing what you learn from a speaker for your target list. This could be useful for those who attended, but understanding what is of value to those who missed this meeting can be a great introduction to those who weren't there.

Follow up. When you do meet a potential client, don't wait for them to call you! If you don't follow up, you might just as well have not attended. Tips for following up:

- Do it soon.
- Take it in steps. Send out a quick "it was great to meet you note" and attach something of value to that person. (An article, something related to what you were discussing, something related to the topic of that meeting's speaker, something related to why that person attended this event.)
- Reestablish the connection before making inquiries about the possibility of working with you or your firm.

Referral Source Networking. An alternative strategy for effective networking is to focus on developing referral sources. If you receive regular referrals from a particular person, this can be a good starting point. Why does this person make referrals to you, and, more specifically, how and why is this person positioned to make those referrals? Next, who else fits that mold who could be developed as a referral source?

Traditionally, people who sell other professional services (CPAs, bankers, lawyers)—especially those who sell to the same title or role you have identified as the most appropriate title for making a decision about buying your firm's services—are ideal referral source possibilities. In some cases, those involved in a professional service that is purchased well upstream from the point when your firm's services are contracted can be good referral sources. In others, there are people who are simply "in the know" or who "know everyone" who are positioned to make referrals to you or your firm. For example, I know of an engineering office leader who knows all the business leaders in his city; he has wonderful sources for both information and referrals.

Once you have a good idea of the role, titles and industries of potential referral sources, you can use the same investigative process for finding out about where these potential referral sources network and what is important in their industries at the moment. At that point you can consider how you might be helpful to those people.

Referral sources are a gold mine. Over time, a referral source can be educated to know what makes a better or worse lead for your firm's services, thus limiting less worthwhile pursuits. Referral sources can be the source of more than a single, specific service. Most importantly, a referral source provides an immediate boost to your sales process. When you meet a prospect directly through networking, your first goal is to find connections, to find commonalities. In that situation, you may be able, after the fact, to find someone to substantiate your credibility and recommend your firm. But, by definition, a good referral source is trusted and respected both by you and by the prospective client. You start off way ahead when a trusted and respected individual suggests that you meet a prospect.

Donna L. Maltzan is a business development trainer and consultant for engineers, CPAs, and construction and design professionals. She can be reached at 860/429-0402 or Maltzan@charter.net.

Risky Bidding Practices

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Working for the Wrong Client

Of all claims made against engineers, approximately 55 to 60% are claims made by clients. Add to that the risks of not being paid for services rendered or a project being halted due to inadequate funding and it is easy to see that choosing the right client to work for may be the most important decision your firm can make. A fair amount of due diligence in selecting your clients can go a long way toward protecting your firm against financial loss.

Start with assessing your prospective client's ability to handle a construction project. Does the client have the financial resources necessary to pay your firm and build the project? In the private sector, you may be able to obtain a Dun & Bradstreet or other financial report on your client that can help in assessing its financial strength. In the public sector, you should research whether funding has indeed been appropriated for the project. What conditions, if any, have been placed on the funding that might increase your risk? On municipal work, is funding conditional upon approval by a federal or state agency? You certainly do not want to perform services for a client and later find out that no money has been appropriated for you to get paid.

Does the prospective client have the skill to make decisions and otherwise handle a construction project? Committees such as school boards, homeowner associations and civic and religious groups can be particularly challenging to deal with. Unless the committee designates a single decision maker for the project, you might find that your firm is spending significant time explaining recommendations and services, waiting for a final decision to be made. In the public sector, boards or committees have the added pressure of wanting to please constituents. They may be quick to criticize or find blame if later the project does not go totally according to plan.

As an example, about 13 years ago, I was involved with handling the insurance program for a major west coast transportation project. I was offering a program to replace one that had been criticized publicly in an audit as having numerous flaws. The auditor concluded that the coverage provided in the original program was inadequate to insure the project and that the agency wasted substantial public funds on the insurance. The final decision to proceed with the replacement insurance was made by a board of elected officials in a televised public hearing. After extensive questioning from the board members, each raising objections and concerns about the cost

and benefit of the insurance, the board voted to delegate the final decision to the chairman. He decided to approve the purchase. Fortunately for him and me, the replacement insurance program worked as expected.

With increased desire for better cost savings and more efficient project coordination, a number of owners in both the public and private sector are considering design-build. Some engineers have expressed concern that working as a subconsultant to a contractor for design-build could expose the engineer to increased risk and possibly a higher standard of care.

Unless the contractor attempts to impose a warranty or guarantee upon the engineer in a contract, the standard of care is no different when performing design or engineering services for design-build than for design-bid-build. However, if you are considering working for a contractor on a design-build project, it is important to keep in mind that your client is not the owner of the project, but rather the contractor. If the bid is subject to a GMP or if the contractor is contractually limited by the owner in seeking additional compensation for unforeseen events, you may need to provide more extensive detail in designs and drawings than would otherwise be required for the project owner. Also, the contractor should allow your input into the adequacy of the contingency. It is important to recognize the level of up-front services that may be needed and whether the contractor is willing to compensate you in terms of a fee and sufficient time to provide these services. Otherwise you risk the possibility of a financial loss working for the contractor.

Working for Inadequate Compensation

Project owners and contractors purchasing the services of engineers are essentially securing the expertise of skilled professionals. Engineering services should not be treated as commodities where the only basis for selection is the lowest bid. The safety, success and value of the design for a project depend upon the expertise of the engineer. This is the reason that ACEC has been so active nationally in promoting Qualification-Based Selection (QBS) as the preferred method for the procurement of design services.

Clients securing professional services on the basis of lowest bid may be looking to do the project "on the cheap". They may also be inclined to cut corners during the project and unwilling to accept any increase in costs, even for unforeseen events. If you accept less than adequate compensation for your services, that will put an additional burden on your firm. You may be inclined not to allocate the appropriate personnel and resources to the project, thus increasing the

risk of problems occurring. At the very least, you may find the project to be unprofitable and your firm losing money as a result.

Compounding the effect of an inadequate fee is failing to seek additional compensation for additional services. Proposals must clearly identify what constitutes the project's basic services and which are subject to additional fees. Many times engineers provide additional services to help resolve problems that had nothing to do with the original design. As such, they provide much needed assistance in protecting the project owner. The additional value to the project is definitely worth additional compensation.

Project write-downs due to rework without additional compensation is a consistent problem in the engineering community. An annual survey of engineering firms published by the Environmental Financial Consulting Group shows that project write-downs due to uncompensated rework is, on average, between 2 to 4% of firms' gross revenue. For a firm with a profit margin of 10%, this means that as much as 20 to 40% of the profit is being wiped out by these write-downs. Be sure that you do not undersell your services. Seek additional compensation for additional services.

Assuming Inappropriate Risk in Contracts

After winning a project, you may feel added pressure to accept unnecessary risk in contract language. You've probably encountered prospective clients who say they never agree to changes in their contracts. You may have also faced the threat that if you don't sign the contract as is, your client will select another firm to do the work.

Accepting inappropriate risk of loss in contracts can be potentially more damaging than not getting the work. If you don't have the control or resources to effectively manage the risk, then you need to assess the probability of the loss actually occurring and how severe that loss might be. If it is a high probability and severity, then you may be better off turning down the work.

Regardless of the risk, it is still better to at least attempt to negotiate out inappropriate contract language. Keep in mind that the client selected your firm over all others that bid on the work. They may be disinclined to move on to another firm and lose the benefits that they felt only your firm could provide. There is also no guarantee that another firm will agree to accept the inappropriate risk and sign the agreement. At the very least, beginning negotiations with another firm means delay and uncertainty, which might be enough incentive to prompt

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Risky Bidding Practices

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the client to work with you to achieve more appropriate language. When assessing risk and negotiating contract language, be sure to seek the advice of counsel and your insurance broker, who specialize in providing contract advice.

In challenging times when work is scarce and margins squeezed, it is important that you do not make the added mistake of engaging in

risky bidding practices. Tougher economic times require discipline and focus which, in the long run, will protect your firm's future.

Mike Herlihy is an Executive Vice President and an equity partner of Ames & Gough in Boston. With over 33 years of insurance experience, he is a recognized expert on professional liability risk management issues affecting design firms. Mr. Herlihy chairs the ACEC/MA Risk Management Forum and serves on ACEC's Federal Agency Procurement Committee. He can be reached at 617/328-6555 or mherlihy@amesgough.com.

UPCOMING EVENTS

ACEC/MA Education Corporation

Inaugural Golf Tournament

To benefit ACEC/MA scholarship fund

Monday, September 20, 2010

Marshfield Country Club, Marshfield, MA

[Click for more information](#)

ACEC/MA MassDOT Design Build

Dinner Program

Wednesday, September 22, 2010

Westin Waltham-Boston, Waltham MA

Registration begins at 5:30 PM

[Click for more information](#)

ACEC/MA Odyssey Program Begins

Thursday, October 7, 2010

Babson Executive Conference Center

Wellesley, MA

[Click for more information](#)

ACEC 2010 National Fall Conference

October 17–20, 2010

El Conquistador Resort & Spa

Las Corabas, Puerto Rico

[Click for more information](#)

ACEC/MA and CIM Dinner

Wednesday, October 27, 2010

Sheraton Needham, Needham, MA

Registration begins at 5:30 PM

Details to be announced

ACEC/MA "SMART Conversations"

Breakfast Program

Tuesday, November 16, 2010

Westin Waltham-Boston, Waltham MA

Registration begins at 7:30 AM

[Click for more information](#)

ACEC/MA Political Update

Breakfast Program

Wednesday, December 8, 2010

Westin Waltham-Boston, Waltham MA

Registration begins at 7:30 AM

Details to be announced

ACEC/MA Water Infrastructure

Breakfast Program

January 12, 2011

Westin Waltham-Boston, Waltham MA

Registration begins at 7:30 AM

Details to be announced

ACEC/MA 2011 Program

for Emerging Leaders

Tuesday, March 1, 2011

Icebreaker for six session program

Details to be announced

ACEC/MA Engineering

Excellence Awards GALA

Wednesday, March 24, 2011

Boston Marriott Cambridge

Registration begins at 5:30 PM

Details to be announced

ACEC 2011 Annual Convention

March 30–April 12, 2011

The Grand Hyatt, Washington, DC

www.acec.org

Design Professionals Day

at the State House

Tuesday, May 10, 2011

Tentative

ACEC 2011 National Fall Conference

October 19–22, 2011

Caesar's Palace, Las Vegas, NV

www.acec.org

A calendar of ACEC/MA Committee/Forum Meetings can be found on www.acecma.org.

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