

# Strategic Planning in the Face of Disruption

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**EFCG**  
Environmental Financial  
Consulting Group

# About EFCG: Who We Are



## Advisory

**500+**  
A/E/C Firms Advised

- Financial & Strategic Consulting
- Talent Strategy
- Technology Practice
- Sustainability & ESG



## Mergers & Acquisitions

**160+**  
M&A Transactions Completed

- Sell- and Buy-Side Assignments
- Consultation on Capital Raises
- Market Creation for a Merger or Sale of a Firm
- Post-Merger Integration



## Executive Conferences

**70+**  
Conferences Hosted

- Analysis on Industry Trends
- Advice from Subject Matter Experts and C-Level Executives
- Peer-Networking Opportunities

***Uniquely positioned with 30 years of EFCG proprietary industry data from 300+ private & public firms***

# How We Support Our Clients

## Data & Insights

*Provide tailored insights using EFCG's 30+ years of confidential A/E/C firm data, from growth and profitability to overhead and turnover metrics*



## Expertise

*Offer an expansive advisory perspective, with diverse team experience in engineering, M&A, finance, technology, talent, leadership, sustainability, business development, and more*



## Partnerships

*Bring together organizations and advisors from across the A/E/C space to deliver distinctive, comprehensive industry guidance*



## Customization

*Create a personalized solution for every client by committing to understanding your purpose and priorities first, enabling you to realize your ambitions*



# Agenda

## Key Trends Impacting the A/E/C Industry

Technology

Talent

DE&I

Sustainability

M&A

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## Strategic Planning Best Practices

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## Implications of Key Trends on Strategic Planning

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# Technology Investment and Adoption is Accelerating

## Multiple Trends Are Converging...

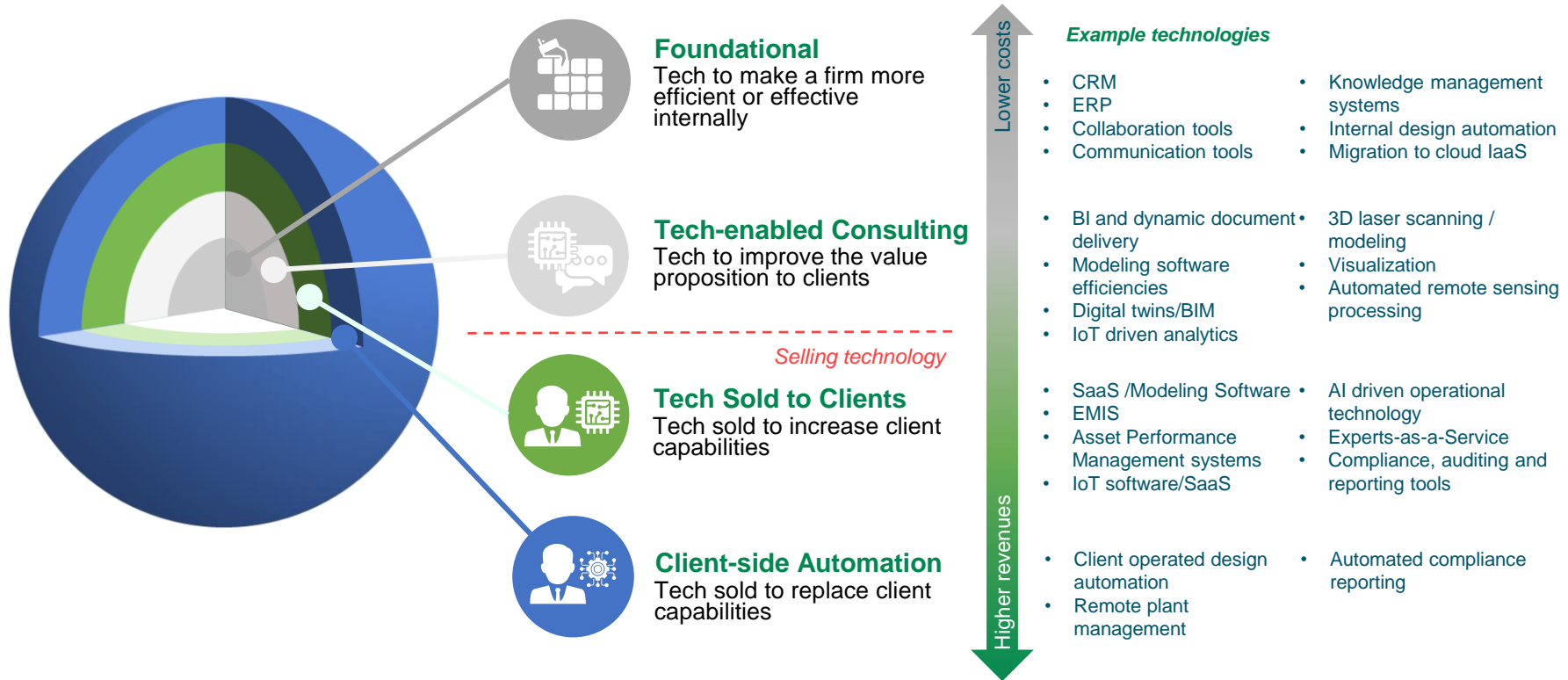
- 1 Pricing pressures / commoditization are driving firms to look for opportunities to lower costs
- 2 Talent constraints mean firms are looking to do more with less people, leading to investments to drive efficiency
- 3 The risk of potential disruption (e.g. by automating key processes) means some firms are considering opportunities to disrupt themselves first
- 4 Increasing competition is pushing firms to look for opportunities to differentiate their value proposition and create additional revenue streams

## ...Driving Increased Investment in Technology and Innovation

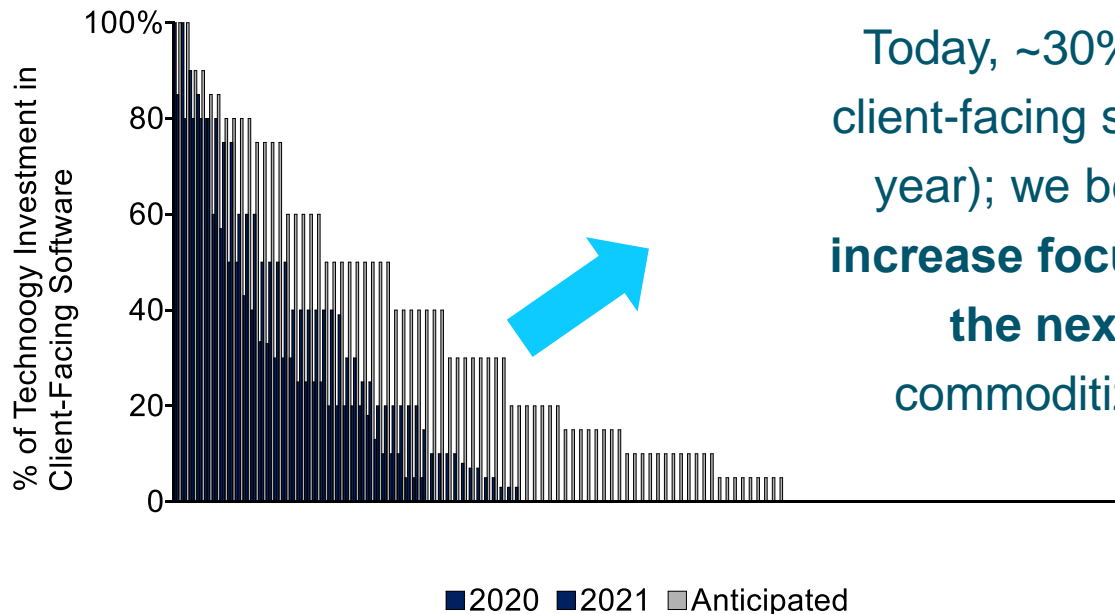
- Technology acquisitions across the A/E/C industry have gone from 4% in 2015 to 7% of total acquisitions in 2020
- 20% of firms have acquired at least one firm in the last five years specifically to add technology / innovation capabilities
- 19 of the top 20 engineering firms cite technology as part of their strategy

<b>Median R&amp;D and Tech Investments</b> <i>(% of Net Revenues)</i>	<b>2021E: 1.5%</b> vs. <b>2019: 0.5%</b>
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# EFCG Technology Framework – Building a Portfolio of Four Circles of Technology



# We believe the industry will continue to shift toward selling technology



Today, ~30% of firms of firms invest in client-facing software (up from ~25% last year); we believe that many firms will **increase focus on the ‘outer circles’ in the next 3-5 years** to prevent commoditization and drive revenue

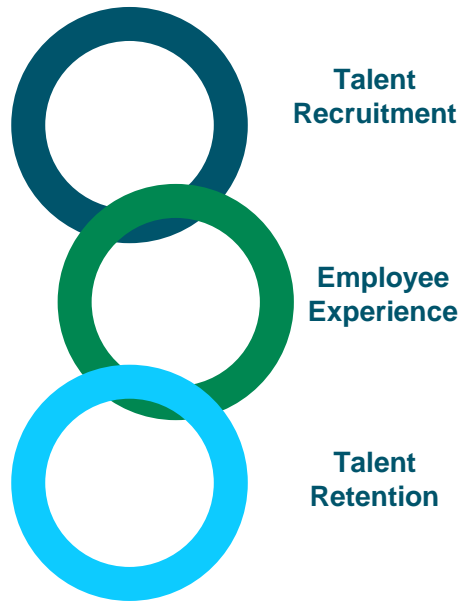
Source: 2021 EFCG CEO Survey and EFCG 2022 HR Survey

# Key Talent Concerns

Existing trends in talent (e.g. changing generations and preferences) and pandemic-driven shifts (e.g. work-from-home) are coming together to create greater talent challenges in the A/E/C industry than ever before

## Where Firms are Seeing an Impact:

- Attrition among students pursuing STEM degrees contributing to a potential deficit of 1.3 million A/E workers in the US by 2030<sup>1</sup>
- Intense competition between firms in finding “skilled / qualified candidates”
- Strong need for additional training and development, including digital skills, across all levels of the organization
- Heightened levels of depression and anxiety, in addition to new family obligations, stemming from the pandemic
- Continued above-average turnover among younger employees, women, and underrepresented communities
- Increase in employees leaving firms to work for a competitor (*48% of voluntary turnover in 2021 vs 42% in 2020*)

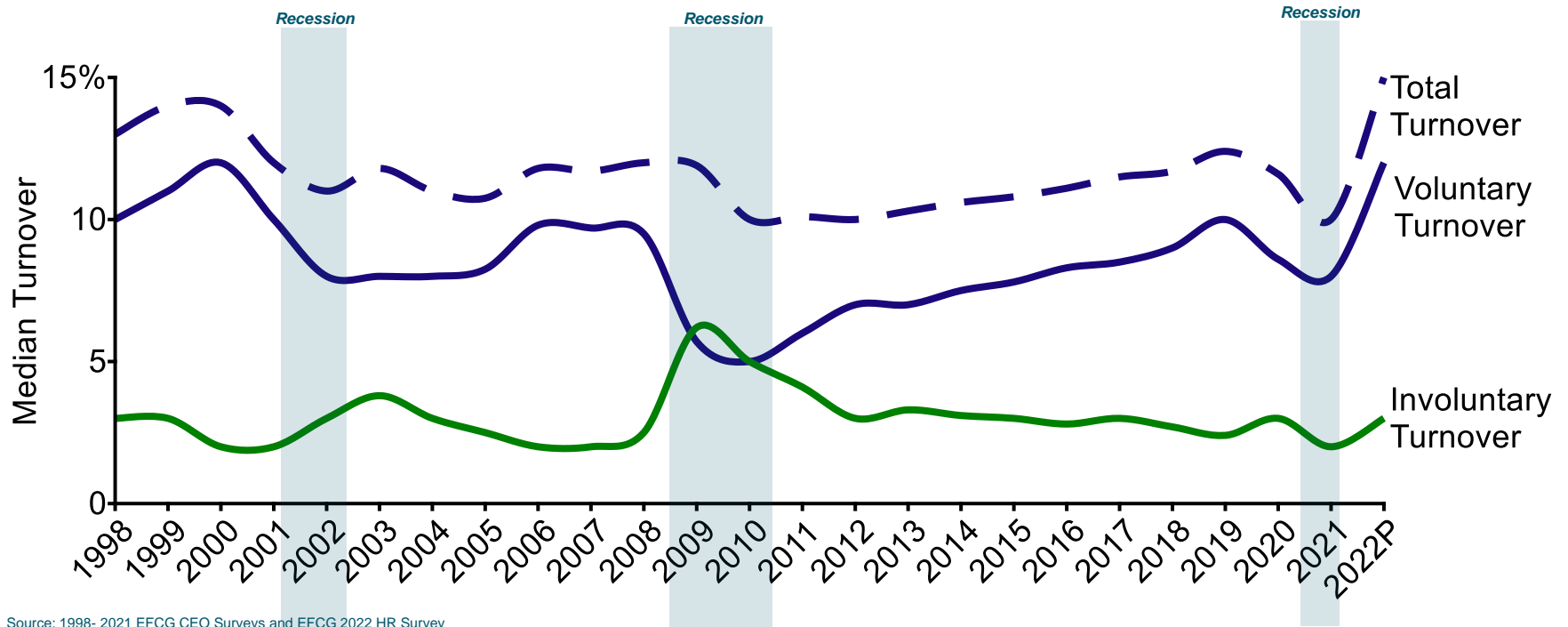


Statistic Source: BCG – The Future of Jobs in the Era of AI; 2021 EFCG CEO Survey and 2022 EFCG HR Survey



# Current Turnover vs Previous Recession Trends

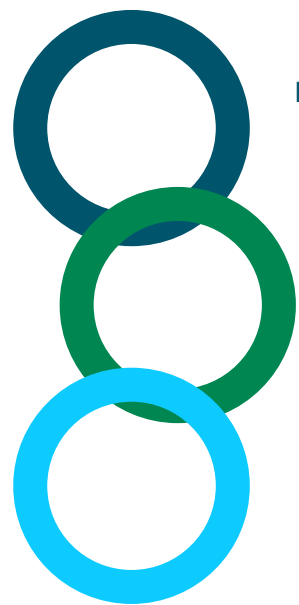
Both voluntary and involuntary turnover are increasing in 2022, and looming questions remain about how hard the A/E/C industry will be hit during the “Great Resignation”



Source: 1998- 2021 EFCG CEO Surveys and EFCG 2022 HR Survey

# How Firms are Addressing the War for Talent

Firms are leveraging new ways to strengthen their talent recruitment, employee experience, and talent retention strategies.



**Talent  
Recruitment**

**Employee  
Experience**

**Talent  
Retention**

## Diversity, Equity, & Inclusion

- Hiring employees from new sources (ex: HBCUs)
- Hiring remote employees to expand geographic pipelines
- Actively fostering inclusive workplaces that welcome and value diversity (ex: ERGs, DEI councils)

## Technology Adoption

- Using programs to conduct virtual interviews and candidate screening (ex: HireVue, Hiretual)
- Implementing tools to enhance collaboration and real-time flow of information (ex: Teams, CRMs, ERPs)
- Investing in technology to drive efficiency and deliver “more with less”

## Flexible Work & Benefits

- Adopting “Work From Anywhere” policies to provide more flexibility / balance to employees
- Providing stipends for home office equipment
- Offering additional financial support for mental health resources and family care

# ESG is becoming increasingly important to A/E/C firms

## There are multiple drivers supporting this -

-  • Demand from employees / prospective employees
-  • Demand from clients
-  • Demand from investors
-  • Need for new / increased revenue streams
-  • Positive valuation impacts
-  • Risk management

### As a result of these drivers...

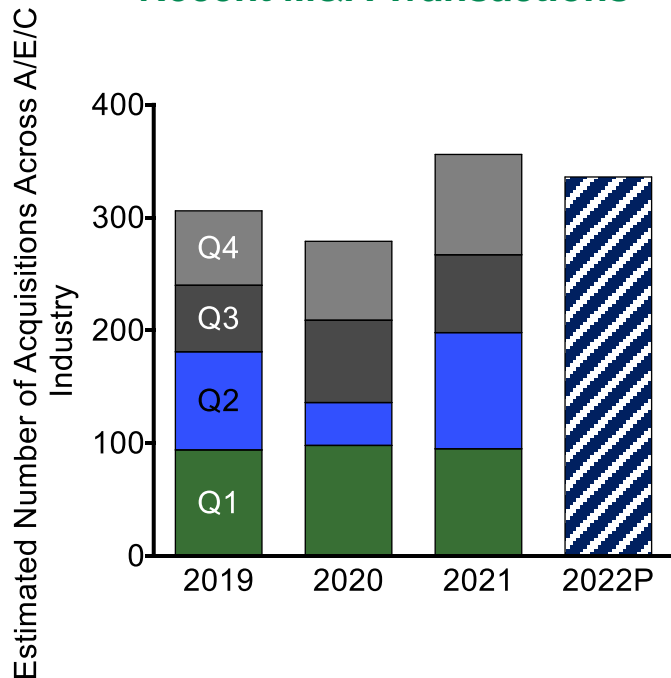
- **35%** of firms now have an ESG lead
- **34%** of firms publish annual ESG reports, and 22% plan to start
- **45%** of firms have increased their public reporting of ESG initiatives in the last year

Source: 2021 EFCG CEO Survey and EFCG 2022 HR Survey

# M&A: State of the Industry

- Robust activity in 2021 (driven by strong Q2 activity) leading to record-high number of transactions in recent years
- Financial buyers remain active and continue deploying significant capital into A/E/C, with at least 26 deals carried out in 2021; significant “dry powder” expected to be deployed in the next 18-24 months
- Continued focus and interest in the “hot” verticals of water / wastewater and transportation (alongside traditional environmental and geospatial), and firms in the Southeast, Texas and California
- M&A multiples are holding strong, driven by a combination of structural and cyclical factors, with multiples for firms >\$250M accelerating
- 2022 expected to maintain the high rate of transactions in our space

## Recent M&A Transactions



Source: 2021 EFCG CEO Survey and EFCG 2022 HR Survey

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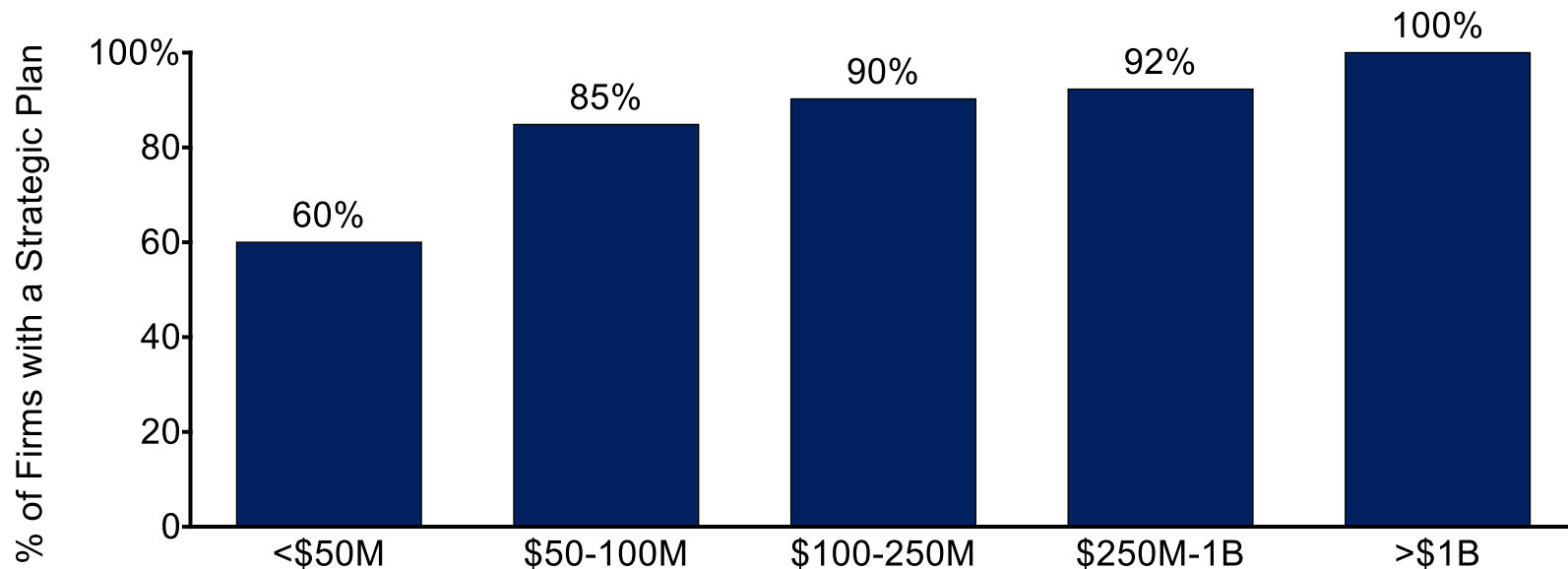
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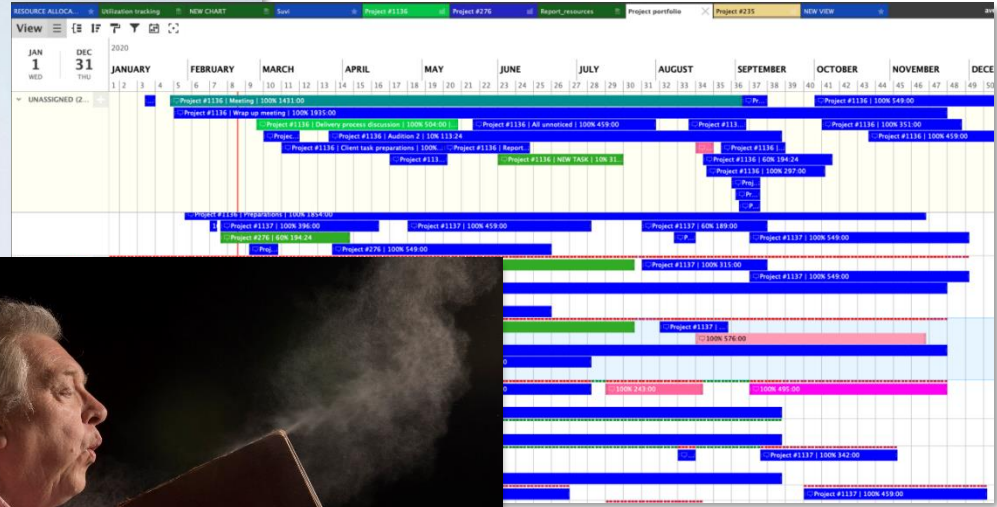
## Implications of Key Trends on Strategic Planning

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# Strategic Plans in the A/E/C Industry

On average, ~70% of firms have a strategic plan in place, and this number is higher for larger firms





# What is a Strategic Plan?

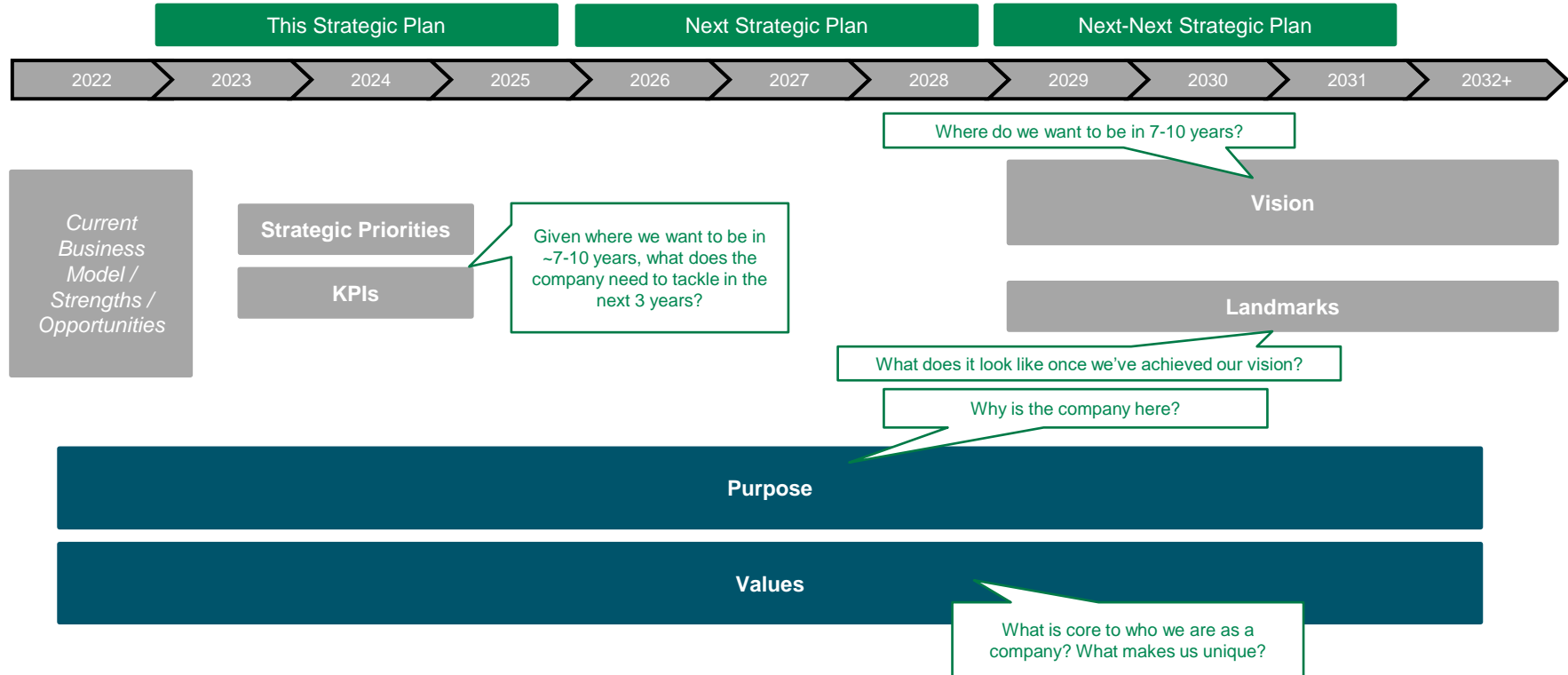
- A Strategic Plan is a firm-wide roadmap that outlines what a company would like to achieve in the short-, medium-, and long-term
- It provides guidance on how resources (ex: time, money, focus, etc.) can be allocated and ensures all employees are aligned on a common direction
- It helps answer the following questions for the employees of the company:
  1. Where do we want to be?
  2. What should we do to get there?
  3. How can we do it together?



# Key Components of a Strategic Plan

- **Purpose:** Why is the company here?
- **Values:** What is core to who we are as a company? What makes us unique?
- **Vision:** Where do we want to be in 7-10 years?
- **Landmarks:** What does it look like once we've achieved our vision?
- **Strategic Priorities:** Given where we want to be in 7-10 years, what does the company need to tackle in the next 3 years?
- **KPIs:** What metrics will we use to track progress?

# Key Components of a Strategic Plan



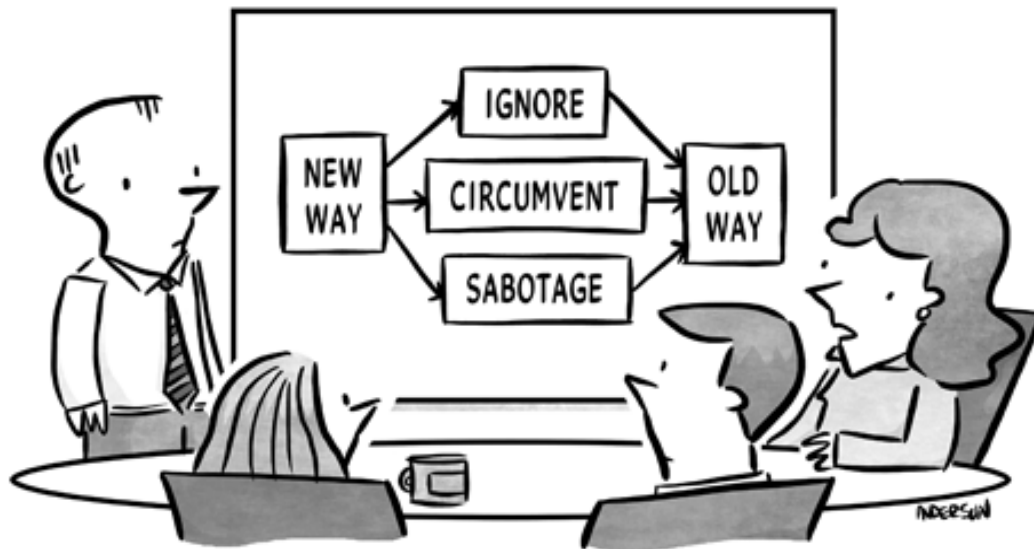
# 'Guiding Principles' for Strategy / Strategic Planning Process

- **Simple**
  - The strategy needs to be simple and memorable so that all employees can know it and remember it; it should fit on a page that sits at everyone's desk
- **Inspiring**
  - The strategy should be reflective of the firm's vision, in line with the firm's core values, and provide an exciting perspective about where the firm is going
- **Accountable**
  - The work needs to include a plan for how to follow through and execute, and maintain accountability across the organization for achieving the goals
- **Transformational**
  - The leadership team needs to be willing to challenge "business as usual" in order to prepare for a quickly changing environment, particularly as it relates to technology
- **Fast**
  - The process must be based on quick iterations, quick implementation, quick wins and quick adjustments in order to drive the best possible results

# Common Challenges

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"So business as usual."

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# Agility in Budgeting / Resourcing

- Many firms create annual budgets based on previous year budgets (e.g. +5%)
- COVID-19 / the recession continues to create major shifts in our industry and is throwing a lot of “business as usual” into question
- Firms should be looking for agility in budgeting, and the ability to redeploy resources against changing priorities

# Agility in Budgeting / Resourcing

Within a given year, consider actively redeploying resources based on performance

## Traditional Resource Allocation:

- Fully allocating budgets and resources against initiatives at the beginning of the fiscal year

## Agile Resource Allocation:

- Partially allocating budgets and resources against initiatives at the beginning of the fiscal year
- Redirecting resources based on results / ROI / diminishing returns
  - Reducing investment in some areas
  - Increasing investment in others
- Particularly useful for ‘testing’ innovative initiatives – enables you to prove the value of different opportunities before making a full investment

# Thank you!



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