

One world— or is it?

> Doing business overseas is never straightforward, so don't let yourself get caught in a whirlwind.

It's popular to say these days that "the world is flat" or we live in "one world." While there is some truth to these statements (thanks largely to high-speed and high-bandwidth electronic communications), this kind of thinking can get A/E/P and environmental firms into a lot of trouble— especially when it comes to the lure of international work.

> **Editorial**
Neophytes to international work often cannot accurately assess the risks of working in a foreign country.

Those who have been reading my writings for this business over the years in the pages of *The Zweig Letter* and elsewhere probably know that I am not easily seduced by the word "international." I have worked with and met

many people who are, however. There is something about an opportunity to do a project in another country that does something to them. It is as if their brains stop functioning and all of their critical thinking skills normally used to make

go/no-go decisions for domestic projects go out the window.

You'll hear normally rational principals making statements such as: It's "a project in Rio de Janeiro— let's go!" Or "I've never been to Dubai— I hear it's really cool!" Or "This is our opportunity to break into CHINA— the biggest potential market anywhere— let's do it!"

I'm not going to sit here and tell you that international work is not sometimes a good thing. There are some firms that I know would not exist today were it not for their international work— lots of it— that carried them through domestic recessionary periods. That said, I can tell you that none of these firms are Johnny-Come-Latelys to international work. They have a long history of doing projects in foreign countries and understand how to do it successfully.

The problem, however, is risk. Neophytes to international work often cannot accurately assess the risks of working in a foreign country. Not understanding the culture is first and foremost. It really helps to have someone See "Editorial" on page 2

Special Issue: International Markets

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Next week:

Mark Zweig writes about why clients really hire your firm.

Home is where you find work

> It's a small world after all, and firms are looking outside the boundaries of the U.S. as they try to keep up with clients and remain profitable.

When it comes to international expansion in 2009, architecture, engineering and environmental consulting firms are mainly following their clients or the money trail. Geography, it turns out, is just a consequence.

A *The Zweig Letter* survey prepared for this issue reveals that an overwhelming

39% of respondents say the main reason they are looking to expand internationally is their clients, and another 24% say they are following the money.

Only slightly over 3% say they've expanded, or thinking about doing so, primarily because the U.S. market has dried up— although it widely known that opportunities for growth in the industry often lie outside U.S. borders.

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> Global Presence

Do you have international operations?

Yes	41%
No	19%
No, but we're considering expansion	25%
No, and we're not considering expansion	16%
Yes, but we plan to close our international operations	0%

Source: *The Zweig Letter* international markets online survey.

Editorial

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from the country you are thinking of trying to work in on your staff who can help you better understand the culture. We have all heard about GM trying to market the Chevy Nova in Latin America only to discover that Nova means "no-go!" A/E/P firms can make similar mistakes when they don't understand the culture of the countries they are trying to work in. Or, how about the fact that in some countries, bribes are paid customarily to get things done? That could certainly pose ethical challenges for a U.S.-based company coming from an environment where they would never consider such a practice.

Another risk factor is the legal environment. There are often laws in foreign countries that are quite different from our own. From it being illegal to chew gum in Singapore to employment laws in Spain that require two-year notice being provided to workers who are going to be let go, ignorance of the law is never an excuse to violate it. And, just imagine how difficult it can be if one of your people runs afoul of the law in a foreign country and you have the responsibility for getting him or her out of jail and home safely!

There are so many more risk factors associated with foreign projects. From minor factors such as not really understanding the time and cost of travel, to big things such as risk of military coups, war, and currency fluctuation. You better know what you are doing before you leap into international work, or you can get into a heap of trouble, fast.

Years ago, I knew of several U.S.-based A/E firms with offices in London. While one of them never made a penny there, they kept it because their principals enjoyed visiting London. That's great if you can afford it, but most of us can't. I say run a successful business and let the principals buy their own vacations to anywhere they want to go! ■

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Because they're following their clients or potential revenue, survey respondents are all over the map in their global intentions. Looking into 2010, 18% of respondents picked China as their favored target. Nearly 10% chose Dubai, and Abu Dhabi and India, with 3%, follow among the other six choices. Other popular choices: Canada, Europe and Central and South America, including the Caribbean.

"Right now the problem is that it doesn't really matter where the geographic market is, the problem is actually defining a market that is doing something."

"Right now the problem is that it doesn't really matter where the geographic market is, the problem is actually defining a market that is doing something," says Thomas Milanich, chief operations officer at KA Inc. (Cleveland, OH), a 54-person architecture firm.

The firm, which has traditionally served the retail market, has pursued opportunities in Mexico, but has also considered the United Arab Emirates and India.

"You have to go where the work is," Milanich says.

"We will support our client wherever they should ask us to work," says Kevin



Kevin Phillips,
CEO,
FPM Group, Ltd.

Phillips, CEO with FPM Group, Ltd. (Ronkonkoma, NY), a 100-person engineering and environmental science firm without an international presence, but considering.

So, where is the work?



Gregory DiFrank,
President,
River Consulting.

"Anything that is imported into the U.S. has to be sourced from somewhere. We are using the 'follow the boat' approach to identify new opportunities," says survey respondent Gregory

DiFrank, president of

River Consulting (Columbus, OH), a 210-person management, consulting and engineering firm. River Consulting has worked in 57 different countries, and DiFrank identifies "following the money" as the main drive for international expansion.

"Latin America has several booming regions, driven by natural resource production. When this is combined with political stability in the region, these can be good areas to operate," DiFrank says.

"We've been working in Israel for more or less 15 years and plan to continue. We

Trade mission critical

Thomas Milanich, chief operations officer at KA Inc., has nurtured a love affair with Mexico for 20 years, owning property on both coasts.

So, when in 2003 he found out about a state of Ohio-sponsored trade mission to Mexico, he didn't hesitate in signing-up.

Over nine days he met over 100 people from 30 different companies in three cities, including Mexico City, in meetings organized through the International Trade Administration's U.S. Commercial Service (www.trade.gov/index.asp).

That trip launched KA's presence in Mexico.

"From those people I have managed to meet more and more people and spin of a couple of clients," Milanich says. "The trip was just

amazing. All kinds of business providers were ready to step in."

Since then KA has provided the design and planning work for four malls—including a boutique mall near Mexico City and another in Los Cabos—and has developed masterplans and design studies.

That work might lead to the firm establishing a physical presence in Mexico in the near future through a joint-venture, Milanich says, all thanks to the trade mission.

"I'm guessing that other states do this," he says.

While firms can find opportunities in each of their home base states, the International Trade Administration's Export.gov trade mission calendar (www.export.gov/eac/trade_events.asp) is a good place to start.



Craig Finley,
Principal,
Finley Engineering
Group, Inc.

currently have a proposal in for a project in Sri Lanka. In the last three years, we've been watching the Indian market and may pursue a project there in the near future," says survey respondent Craig Finley, the principal at

Finley Engineering Group, Inc. (Tallahassee, FL), a 22-person consulting engineering firm.

Before you go

KA has threaded carefully in the international market, choosing to find partners in Mexico for its projects there, rather than opening an office and fund a full operation. The firm is considering a joint-venture with its "name on the door" as the next step.

As one might guess, despite the obvious rewards, setting up shop in an unfamiliar place with strange customs, puzzling regulations and obscure processes is fraught with risk.

Potential problem areas vary from simple British to metric conversions, to religious conventions such as prayer call in Islam—when employees leave their work stations or meetings—and complicated issues such as liability, banking regulations and political conflict (for example, anti-Israeli business clauses in many Arab countries).

"People need to understand that there's crap going on in the world," Milanich says. "People have to understand what country you're in."

"You have to go where the work is."

David J. Singer, CEO of **Singer Nelson Charlmers** (Teaneck, NJ), an insurance firm that works with the industry, points out issues of liability as major stumbling blocks in the process of working internationally.

"That there are some funky insurance issues which need to be dealt with and it's important to work closely with your insurance broker as you venture forth," he says.

Singer says that although U.S. policies can often cover professional liability in other parts of the world, there are certain places where the only way to be covered is through buying a local policy. Insurers use a sort of international network of brokers to purchase those policies.

In other locales, it is the concept of "strict liability" that firms looking to work internationally need to watch for. In general, strict liability means that for 10 years all parties involved in a project share responsibility if there are damages due to, for example, structural failure.

"Even if it's not your fault, it's your fault," Singer says. "It's an exposure that people need to be aware of."

Milanich's advice: "You're not going to immediately figure out how business flows in these countries, so you better have a partner," he says. "Instead of looking for projects, find people. It is what we did." ■

> A/E Business News

PB BOUGHT IN INTERNATIONAL DEAL: **Parsons Brinckerhoff Inc. (PB)** (New York, NY), a 13,000-person engineering, strategic consulting, planning and program/construction management firm, announced its sale to **Balfour Beatty plc (BB)** (London, UK), a 40,000-person international engineering, construction services, professional services and investment group firm. The deal, pending shareholder approval on Oct. 21, is worth \$626 million.

James L. Lammie, the chairman of the board of PB, said in a statement, "Balfour Beatty has agreed that Parsons Brinckerhoff will retain its name and organizational structure and operate as an independent but wholly-owned subsidiary. We believe this will allow us to continue to meet our clients' needs in ways they expect while expanding into new areas that will provide additional opportunities for our employees."

PB will assist in expanding Balfour Beatty's vision in becoming a global integrated leader in infrastructure services through the addition of world-class professional services capabilities, according to the statement.

In 2008, PB had revenues of \$2.34 billion. The publicly traded Balfour Beatty last year had revenues of approximately \$15 billion.

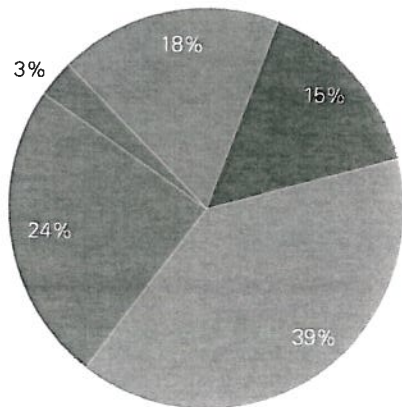
TERRACON BUYS GALLET: **Terracon** (Olathe, KS), a 2,517-person consulting engineering firm, has acquired **Gallet & Associates, Inc.** (Birmingham, AL), a 150-person geotechnical, environmental, construction materials engineering and testing, and facilities services firm. Gallet, which will continue to operate under its name, has 13 offices in five states (Alabama, Mississippi, Georgia, Florida and Tennessee). The firm provides professional consulting services to a long list of private and public sector clients. In addition, they are experienced in the pulp and paper, textile, foundry, oil and gas distribution, power, automotive parts and wire manufacturing industries. Government clients include municipalities, school boards, universities, state Departments of Transportation and economic development agencies.

"Joining with Gallet allows Terracon to strengthen its presence in the Southeast to better serve clients in this area," David Gaboury, president and CEO of Terracon, said in a statement. "Gallet has an excellent reputation, and we are excited to join forces to expand services in the Southeast."

Details about the deal between the employee-owned Terracon and Gallet were not revealed.

> The Pursuit

What reasons would lead you to expand internationally?



We're following our clients 39%
 We're following the money 24%
 The U.S. market has dried up 3%
 We're aggressive growers 18%
 Other 15%

Source: *The Zweig Letter* international markets online survey.

International hot and not spots

> AEC firms offer their perspective on design and building activities in the global marketplace.

It was not too long ago that architecture, engineering, and construction firms were basking in a bottomless trove of projects overseas. The pace of development was intense, the fees were juicy, and there was enough work to go around for anyone with the gumption to simply get on a plane and go there. When

> Z View

design and construction came to a screeching halt last year, the impact was equally disruptive and disappointing as it had been glorious. The economic events that followed left projects half designed, buildings partially finished, and invoices unfortunately unpaid. It also left the industry asking lots of questions— many of which still have no answers.

> Biggest Lesson

“Do not make any assumption based on your U.S. practice, things are very different there.”

— **Edwin Lee**, managing principal in the Los Angeles office of **Glumac** (Irvine, CA), a 250-person consulting engineering firm.

So, we spoke to a handful of firms actively working on international projects to find out what they see and hear about those market segments and geographic regions now. We also asked what they anticipate as we head into 2010 and beyond. Here are their thoughts:

■ **Everything in moderation.** “There are still projects in the Middle East— it’s just not the gold rush it once was,” says Michael Hamilton, principal at **Forefront Structural Engineers, Inc.** (Chicago, IL). “We anticipate all international work will be slow to come back on, as has been forecasted. These governments are committed but, growth really hinges on when banking realigns itself. Right now, there are better investments other than real estate.” It is not a question of whether the work will be there, Hamilton says,

but the pace of development will change and simply shift in new directions.

■ **Sustainability matters.** Steven Baldrige, President of **Baldrige & Associates Structural Engineering** (Honolulu, HI) also sees this transition. “The speculative stuff is gone. In Dubai, the government is investing in educational projects; while Saudi Arabia is now looking to build economic centers, healthcare, and universities.” Focusing on infrastructure and projects that benefit the general population are a good sign, Baldrige says, as tourism and oil simply won’t be able to sustain what’s been built over the last several years.

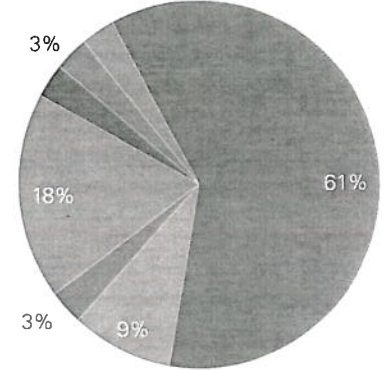
The missing piece, at least in the Middle East, is the mid-sized, affordable construction, says Hamilton. “That hasn’t happened yet but it will have to. Abu Dhabi wants to grow in a sustainable way and do things where the Emirati people have a direct benefit.”

■ **Big lands, small opportunities.** Chinese and Indian cities have blossomed with towers and large developments of their own, but unless the building was iconic, Hamilton says, those countries used local architects and engineers. Still, he says, the opportunities will open, if in small doses. “In China, the western architect is slowly being welcomed and they are starting to see the value in our engineering codes.” The economic transformation of both these nations has led to the emergence of a huge middle class that can now afford better living conditions. For Hamilton, that means an increase in requests for new building technologies that facilitate immediate, sustainable, and constructible design.

■ **History for the future.** “This time should be instructive for a lot of people. History is a good teacher,” says Lance Benham, Senior Vice President of **The Benham Companies** (Oklahoma City, OK) owned by SAIC (San Diego, CA), a 900-employee full service planning and design firm. “As long as we understand

> Looking Into 2010

What international markets do you consider worth expanding to in 2010?



Dubai	3%
Abu Dhabi	3%
China	18%
India	9%
Other Middle Eastern	3%
Other Asian	3%
Other	61%

Source: *The Zweig Letter* international markets online survey.

what the sustainable goals are, we can plan ahead.” On the international level, power and water projects will be critical, Benham adds, not to draw populations, but rather to enhance standards of living. “Decentralized power and water solutions in developing countries— that’s the movement I see.”

Looking ahead, Hamilton is also not discounting North Africa; which has remained relatively isolated from the economic situation of both sub-Saharan Africa and its neighbors to the west. “They are poised for good growth. They are pumping oil but haven’t developed horizontally or vertically. They are stabilizing from a governmental standpoint and their cities need infrastructure.” ■

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Instability leads to warning of caution in international markets

> As economies show some signs of recovery, there are warning signs about expanding in still-weak European markets.

Even as the worldwide economy shows tepid signs of recovery, pessimism and tight-credit markets linger in Europe, making at least one 13-year veteran of international business wary of expanding on the continent.

Arthur Mabbett, president of **Mabbett & Associates** (Bedford, MA), a 35-person environmental health and safety consulting firm with a 21-person sister company in Scotland, says European operations are showing greater effects from the slowdown and the credit crunch than are projects in the United States.

"Recovery from the recession is much slower in Europe," Mabbett says. "As economies recover, Europe will lag farther behind."

> Biggest Lesson

"Our St. John's (Newfoundland) project shows our client base that we will follow them to any locality."

— **Bill Johns**, vice president, **AES Consulting Engineers** (Richmond, VA), a 100-person consulting engineering firm.

Mabbett, says he expects some growth in his existing England, Scotland, Wales and Northern Ireland operations, but he's not optimistic about European expansion.

"If I were a U.S. company thinking of expanding to Bulgaria, or anywhere in Europe right now, I'd think twice. I'd worry about whether I would get paid," he says.

Mabbett says that before the slowdown, the firm was considering opening a central European branch, perhaps in Prague, Czech Republic, or Budapest, Hungary.

"We've put those plans on hold," as a result of the slowdown, he says.

The overriding problem, Mabbett said, is a credit crunch even more severe than that in the U.S.

"European banks aren't lending, except to their very best customers with plenty of hard assets— like buildings," Mabbett says. "The bankers say, 'go out and make all the profits you can, and then come deposit the money with us.'"

A report this month on United Kingdom banks shows the effects of the credit crisis in that country. Moody's Investors Service said its outlook for UK banks remained negative, and said it expected it to remain so for the next 12 to 18 months. The banks, Moody's said, have lost \$180 billion to bad loans and declining securities investments since the slowdown began in 2007, and are likely to lose another \$215 billion by 2011. The gloomy outlook seems to extend throughout the EU and beyond the banking sector. A September survey of Chief Financial Officers (CFOs) predicted a sluggish rebound, and showed that European CFOs are more pessimistic than those in the U.S. and Asia.

The results, from the Duke University/*CFO Magazine Global Business Outlook Survey*, showed that among European firms that have a bank line of credit, companies have drawn down nearly half of their available funds, compared to a 38% drawdown a year ago. In addition, more than half of European CEOs expect more layoffs at their companies, a much higher percentage than those of their U.S. and Asian counterparts.

The credit squeeze and overall pessimism will continue to take a toll on European design and construction projects, Mabbett says, despite predictions from EU monetary officials of growth this quarter, and an EU-sponsored loan guarantee program.

"There's just little or no money being spent in much of Europe," he says. ■

> Calendar

MERGER & ACQUISITION ESSENTIALS

FOR A/E FIRMS: ZweigWhite's *Merger & Acquisition Essentials for A/E Firms* is a one-day seminar that will prepare A/E firm leaders for a successful transaction. The program is presented by experts who have facilitated hundreds of deals for A/E firms.

The agenda covers the logistics of mergers and acquisitions from A to Z and includes information from A/E firm case studies. Here's a sample of what you will learn:

- Current industry M&A trends and the goals and objectives of your competitors.
- How to interpret the motivations of buyers and sellers to help you formulate your own firm's M&A strategy.

The next seminar is Oct. 28 in Las Vegas, Nevada.

ZweigWhite is registered with the **American Institute of Architects (AIA)** (Washington, DC) Continuing Education System (CES) and is committed to developing quality learning activities in accordance with CES criteria.

For more information or to register for *ZweigWhite's Merger & Acquisition Essentials for A/E Firms*, call 800-466-6275 or visit www.zweigwhite.com/seminars.

A/E/C MARKET INSIGHTS FORUM:

Don't miss this chance to gain access to the most up-to-date, regional market data from McGraw-Hill Construction and participate in peer roundtable discussions about the implications for A/E/C marketing.

This half-day workshop and roundtable discussion organized by the **Society of Marketing Professional Services (SMPS)** (Alexandria, VA) combines the most current economic knowledge, leading trends, best practices, and real-world solutions to create strategic advantage for your firm. For each U.S. region— West, Midwest, and Northeast— McGraw-Hill Construction will present regionalized market data to help you create targeted strategies and solutions for your firm. Equip your firm's leadership with the latest market knowledge to take your business to the next level.

Three events are scheduled, Oct. 20 at the Metropolitan Club in Chicago, Oct. 21 at the John Hancock Hotel & Conference Center in Boston, and Oct. 28 at the Marriott Courtyard— LA Westside in Los Angeles.

For more information visit www.smps.org/Content/NavigationMenu/Education/InsightsForum/default.htm.

International clients want the Americans

> In the global market, being the expert is great, but being American only makes it better.

Not long ago, a client in India quickly rebutted Hill International, Inc. when the Marlton, NJ-based, 2,400-person construction management and construction claims consulting services firm, offered to hire a well-qualified local project manager to handle that client's job.



David Richter,
President,
Hill International, Inc.

"They said: 'No, we want an American'," recalls David Richter, president and chief operations officer at Hill International.

It may sound extreme, but the anecdote illustrates the strength of Brand America in the international marketplace in the fields of architecture, engineering and consulting.

While the brand may be somewhat faded in other sectors, courtesy of wars and financial meltdowns, "American firms are seen very much on the leading edge of this industry," Richter tells *The Zweig Letter*, referring specifically to construction management and consulting.

The idea can be applied to the rest of the A/E and environmental consulting industry.

International markets "are still looking for U.S. branded expertise," Rick Lincicome, CEO of Ellerbe Becket (Minneapolis, MN), a 475-person architecture, interiors, engineering, and construction firm, said during an American Institute of Architects (AIA) (Washington, DC) webcast in July.

All over the world—from Dubai to Shanghai—it is common to see American firms employing American senior staff on projects, with locals filling the positions below. The practice speaks to the cache of the American brand abroad, where U.S. firms are seen as pre-eminent. Although international markets are fraught with risk and have suffered in

the recession, American firms can still find many opportunities overseas—where they are often preferred to even local firms.

"Our experience is the local firms tend to only win the work because they are the cheapest," Richter says.

Hill International operates in 30 countries. Richter says the American brand name is especially respected in the Middle East, where American architecture, engineering and consulting firms have been deeply involved in the blistering development of some parts of the region.

"I think the American firms are considered to be the real pioneers of construction management as a service."

Sell expertise

Nevertheless, you can't just go somewhere, set up shop, transplant your services, and compete against everybody there, Lincicome said. "Expertise is really the mantra that you have to focus on," he said.

Expertise in project management is what has helped distinguish Hill International, the top firm on *The Zweig Letter* 2009 Hot Firm List, in the international arena, for example.

While British, Australian, and German firms are competing for the same turf as Hill International, Richter says the firm's ability to understand project management has given it the competitive edge.

"I think the American firms are considered to be the real pioneers of construction management as a service," Richter says, adding that "project management is so key to the success of the project."

American expertise, however, is not all. Every country has different building codes, regulations, contractors, languages, cultural nuances and so on.

So, while "there are many places in the world they want to see an American leading the team," Richter says that "you need local expertise."

"Predominantly, we hire our staff locally," he says.

They might become experts

The market for expertise in the international arena has become crowded in the last 10 years.

For example, in *Architectural Record's* listing top design firms, international billings at the Top 150 Firms increased from \$1.02 billion to \$1.92 billion—an increase of 88%.

Ellerbe Becket, which operates in 20 markets, has noticed such changes firsthand, Lincicome said.

> Biggest Lesson

"Our biggest lesson learned is that we can serve multiple international project locations without investing in a local presence. We have been responsive to multiple opportunities and able to provide senior level leadership and project involvement working out of our two locations of San Francisco and Miami."

— **John F. Eller**, president emeritus, **SB Architects** (San Francisco, CA), a 70-person architecture firm.

In Dubai 10 years ago few foreign firms were to be found; today almost every major American firm is represented. Competition is increasing from other countries and from inside borders, Lincicome said.

"The local firms within these various regions have grown and they have benefited from working with outside firms... and developed expertise," Lincicome said. "You often find them doing work that used to be reserved for outside expertise." ■

Keep a tight grip on international payments

> Bad debt is no greater problem on overseas projects than domestic ones, but firms need a good grasp of the local environment to assure they'll get paid.

Getting paid for your work and keeping bad debts to a minimum can be difficult even in your backyard. So, imagine how complicated it can become outside U.S. borders.

In a slumping economy, international bad debts can be exacerbated by differences in contract law and customs, as well as instability in politics and currency values.

"Things always take longer than expected," says Linda Fitch, vice president of Harris Miller Miller & Hanson Inc. (HMMH) (Burlington, MA), a 55-person consulting engineering firm.

"Getting paid up front isn't enough, if you have to instigate collection proceedings in Kuala Lumpur."

Still, many companies doing business overseas say the difficulties can be overcome with local legal help, financial safeguards and, most importantly, financially solvent clients.

"The most critical element is to make sure the project is well-funded, or that your client is well-funded," says Sam Stone, assistant business leader for international projects at Stanley Consultants (Muscatine, IA), a 1,700-person engineering, environmental and construction services firm.

"If the client doesn't have the money, the client isn't going to pay. That's as true in Nigeria as it is in Southern California," says Stone, who returned to the Stanley's Iowa offices recently after four years overseeing projects in Abu Dhabi, in the United Arab Emirates.

Local advice

Stone advises those entering foreign markets to get as much local advice as possible. "That's how you do some of the research," he says, on whether a client will remain solvent through the life of a project.

A local partner "is the single most important factor in determining international success," says Bill Long, president of Trinium Resources Group, (Wayne, PA), a management, marketing, and human resources consulting firm for the design and construction industry.

Long, the author of a Society for Marketing Professional Services' (SMPS) white paper on how A/E/C firms can operate more successfully in international markets, says local sources provide invaluable information about the risk of doing business on certain projects, or with certain clients.

"One big risk that has to be looked at is financial risk," says Long. "And the biggest financial risk is not getting paid."

"Getting paid up front isn't enough, if you have to instigate collection proceedings in Kuala Lumpur."

When the client-information is not as complete as it might be, Stone says, get paid as much as you can in advance. "If we're looking at a client that we don't know very much about, we'll push very vigorously to get an up-front payment," Stone says.

Advance payments are essential in many international operations, agrees Nawzad Othman, president of Otak, Inc. (Lake Oswego, OR), a 500-person firm specializing in architecture, transportation, construction management, growth management and urban design.

"People usually agree to (advance payments of) 10%," says Othman, whose firm has expanded to Othman's-native Iraq, from the Pacific Northwest, where it has done business since 1981. "You have an awful lot of front-end expenses."

Documenting the work

When collecting the majority of payments—those not paid up front—firms need to be prepared for contracts that are

more complex than those on most U.S. projects, says Stanley Consultants' Stone.

In the UAE, for instance, customers generally demand more-detailed invoices outlining what work has been completed than is required for U.S. projects, Stone says, and want more backup information before invoices are processed. "Those details need to be attached to the invoice. It's much more laborious."

Stone likens the process to the delays that occur in the U.S. when health insurance reimbursements are delayed.

Foreign A/E/C clients use the invoice system "as a mechanism, frankly, to delay payment," Stone says. "But, it's not something you can't figure out. Once you know how the process works, you can make it work to ensure payments."

Currency complications

Whether payments are made in advance or according to project milestones, firms need to be aware of currency values and local monetary restrictions. The risk of currency fluctuations is easy to grasp, according to the SMPS paper. If firms are being paid in a local currency and the value of that currency declines, collections and profits decline along with it.

Lesser-known risks are restrictions that countries put on the amount of local money that can be exported. "Many times this is governed by actual laws; other times by culture and custom," according to the white paper. "Either way, a firm's cash flow is directly affected."

The simplest solution, says Otec's Othman, is to require payments be made in U.S. dollars, or do business in a country where the value of the currency is tied to the value of the dollar. Failing that, an American Institute of Architects (AIA) (Washington, DC) checklist for international projects recommends that firms purchase insurance against currency fluctuations, as well as credit risk protection through the U.S. Export-Import bank. ■

Going international is not without its challenges

> From cultural barriers to securing financing, there are plenty of obstacles to global expansion.

As the saying goes, the grass is always greener on the other side of the fence. Perhaps that's the allure of expanding a business beyond its boundaries, looking to bring it to new geographic markets, both inside the U.S. and well beyond.

What many firms ignore or don't emphasize, though, when thinking about opening an office outside the U.S., are the challenges that accompany such a move. They can range from difficulties financing the expansion, especially during tough economic times, to basic differences in background between people from different cultures.

Embrace and understand differences

It didn't take long for Gregory DiFrank, president of **River Consulting, LLC** (Columbus, OH), a 210-person multidiscipline engineering, consulting and project management firm, to come up with what he sees as the toughest part of going global.

"In a word, 'culture,'" he says. "Each region (of the world) has a different culture that is a combination of many things: religion, history, political climate, education, demographics, and prevailing socio-economic conditions to name a few. This has a dramatic effect on the way that people communicate, deliberate, form relationships, execute both professional and construction work, and in the level of risk that they are willing to take.

"You must learn and understand something about the prevailing culture if you are going to craft effective agreements and create design documents that will allow you to obtain project success. If you think you can approach projects like they are being done on American soil, you are in for a rude awakening," he says.

Be prepared to be flexible

H. Kit Miyamoto, president and CEO of **Miyamoto International, Inc.** (West Sacramento, CA), a 62-person structural

and earthquake engineering firm, agrees there are some distinct differences in how different cultures deal with different issues. He points to insurance issues, such as including an errors and omissions policy in the contract, as one bone of contention his firm has encountered.

"Some cultures don't believe in insurance coverage for design activities," he says. "You can't force people to do things. You have to respect their cultures and customs. You have to really communicate and explain to them why you feel the way you do and why it's important, and then listen to what they're saying and think about why it's important to them."

Another difference Miyamoto has noticed is the greater importance U.S. firms put on legal documents, compared to firms in other countries. That was in evidence when Miyamoto was negotiating to acquire **Fuji Engineering** (Istanbul, Turkey), a 20-person structural, bridge and earth engineering firm, in the spring of 2008. Fuji's lawyer prepared a five-page agreement, while Miyamoto's lawyer had drafted a 50-page document, he says. Miyamoto says firm leaders used "time-tested diplomacy" to bridge the cultural gaps between the sides and get the deal done. The final version of the agreement was about 20 pages, he says, and still covered most of the contingencies both sides wanted addressed.

Andrew Kwok, Asian operations leader at **SSOE, Inc.** (Toledo, OH), a 657-person architecture, engineering, advanced technologies, and sustainable and renewable design firm, says it's critical to find key managers with international experience who can understand the cultural characteristics of the parent company.

"Those who work in a culture other than their own must have a good grasp of the local business culture and be able to observe the traditions in their new environment," he says. "Knowledge and understanding of the local financial system and labor law is also necessary to avoid unnecessary pitfalls." ■

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> Got Ideas? Talk Back

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