

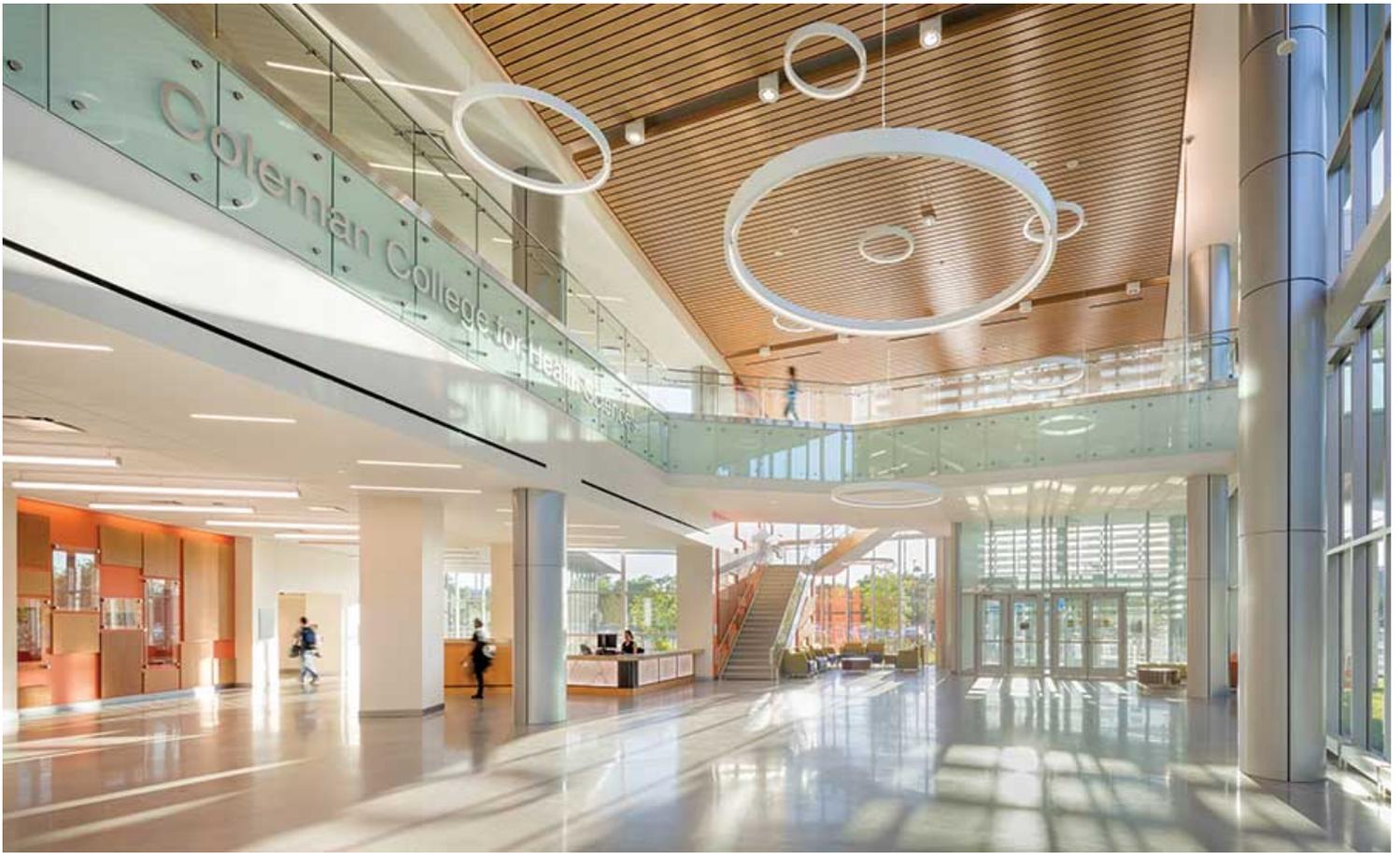
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ENR 2019's Top 100 Professional Service Firms: Companies Aim to Offer Clients More



Heery International, a unit of CBRE Inc., was CM on the Coleman College health and science tower in Houston.

PHOTO COURTESY OF CBRE INC.

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Gary J. Tulacz

In the current hot industry market, third-party construction and program management firms also are finding new momentum. While some clients are choosing to bring project management in-house, many others, facing labor shortages among their contractors and designers, rising materials prices and effective pushback over risk-shifting, need a more professional approach to project controls and delivery.

The tension between a growing market and client in-sourcing is evident in results of this year's ENR Top 100 Construction Management-for-Fee and Program Management Firms list. Revenue for the CM-PM group was up 7.4%, to \$23.78 billion in 2018, from \$22.14 billion in 2017. Domestic revenue from their work was sluggish, rising only 2.6%, to \$18.20 billion; but CM-PM revenue from projects and programs abroad rose a strong 26.8% to \$5.58 billion in 2018.

CM-PM firms' mission used to be about overseeing projects for owners. In an increasingly complex construction environment, however, professional services companies have grown more diverse and have joined design firms in boosting mergers and acquisitions to broaden their scope.

“Whether it's auditing or move/occupancy management, third-party providers are gradually incorporating new services to their umbrella of expertise. This provides clients with a more holistic service,” says Mike Lanier, president of HPM.

In one such move, Anser Advisory recently acquired DHS Consulting to create a 300-person firm with offices nationwide. Anser provides services ranging “from early stage strategic planning, management consulting and compliance oversight through management of tactical program, project and construction management,” says Bryan Carruthers, company CEO.

Also recently, Gafcon Inc. acquired McDowell Scheduling, located in Orange County, Calif., which has worked for such major state-based clients as the Walt Disney Co. and Caltrans.

Another major trend is CM-PM and engineering firms looking to acquire and integrate software companies to add an additional revenue stream to their professional services and provide more comprehensive solutions for clients, says Ali Sarhangian, DHS Consulting’s senior vice president of energy. He says many clients need solutions related to software and its integration with existing and new equipment and infrastructure. “Pairing industry knowledge of professional services with software solutions provide clients with a more comprehensive solution,” he says.

But Carruthers cautions that software is not the ultimate solution for CM-PM firms. “The dream is always that this software or technology may turn into a revenue generator for the professional services firm that is recurring and subscription based, as opposed to being a tool for generating their professional services project-based revenue,” he says. The challenge is that professional services firms are typically best at providing professional services—not developing or marketing software or technology solutions, Carruthers points out.

Overall, the market is looking good for professional services firms. “In a world where individuals are becoming more comfortable with sharing homes and cars, it makes perfect sense for owners to share [CM-PM services] with capital project professionals to meet demand when it’s needed, and save money when it’s not,” says Stephen Coulthard, head of business generation, North America, at Turner & Townsend Inc.

Coulthard says the international marketplace appears especially interested in hiring CM-PM services. “U.S. multinationals, which have adopted new delivery systems and approaches on their projects internationally, are leading the way by combining the best of the U.S. can-do attitude with global best practice,” the executive says.

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Owners in Charge

Owners that have multiple projects being constructed on a continual basis are finding that pulling the CM-PM function in-house is more beneficial. Such clients “are moving away from hiring a project management firm,” says Yehudi “Gaf” Gaffen, CEO of Gafcon. “They see the essential value of the project management function but are hiring in-house specialists rather than contracting out.”

Gaffen notes, however, that many of these same project owners are hiring firms to provide information modeling and technology consulting services to ensure they have an efficient process.

During solid economic periods, like this current one, many larger private ownership groups tend to internalize the CM-PM service for better control and as a cost-saving measure. “That stated, as the market transitions and we feel the inevitable effects of the economic headwinds, we will see this trend shift rather quickly,” says Mark Degenaaars,

managing director, construction services for the Vertex Cos. He says that, if a downturn occurs, use of third-party firms will return to previous levels.

While many owners remain reluctant to outsource their needs early in the development process, Lanier of HPM emphasizes that having a professional services firm engaged at the early planning stage “provides significant cost-savings benefits, such as preventing change orders and overruns, and ultimately increases project profitability.”

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& Townsend**

Further, as public agencies and some developers encounter a much larger variety of project delivery methods, professional services firms can help them make the right choice, according to David Álvarez, vice president of CPM. He notes that his firm is seeing traction for these delivery methods at the local government level and from public owners responsible for discrete infrastructure assets or projects in Florida, Texas and the Caribbean. “CPM offers technical advisory services to public and private owners interested in these new project delivery methods,” says Álvarez.

The hot market is not just providing new opportunities for professional services firm, but also is adding new demands that can no longer be filled by contractors and design firms. “General contractors and subcontractors continue to increase their workload and therefore limit their availability to provide preconstruction services,” says Daniel Pomfrett, national director of forecasting and analytics for Cumming.

In addition, independent third-party firms can provide an unbiased view of the construction process, saving clients time and money. For example, owners usually rely on project cost estimates generated by their design firm. “For federal projects, in particular, the firm usually knows the construction limit—the programmed amount for which Congressional funding has been approved,” says Andy Reape, head of Caliburn International’s engineering and consulting unit, so design firms’ cost estimates are going to be within that amount. “However, actual construction bids frequently exceed or even far exceed that programmed amount,” he says.

CM-PM firms say independent cost engineering services can prevent disparities between design firm estimates and actual bid prices. “Owners need to obtain an independent estimate before letting construction bids,” Reape says, adding that such independent cost estimates and schedules “are free from the bias often found in A/E estimates, and can limit owner exposure by identifying project risks that lead to significant cost overruns.”

Another area where the hot market can provide new incentives for clients is in protecting the owner’s risk exposure. For years, contractors and design firms have complained about owners that aggressively seek to protect themselves by pushing risks for project problems onto service providers. However, the strong construction market has allowed contractors and design firms to push back effectively.

As a result, owners have increased the focus on risk management, resulting in more stringent project controls processes. This is “lending itself well to objective, third-party professional service providers,” says Derek Hutchison, executive vice president of Cumming. Now, as contractors continue to push risk profiles back toward the client, “there is an increased requirement for strong but fair owner advocacy to ensure budget, quality and schedule compliance,” he says.

Such pushback has led many owners and financial backers of projects to relent on stringent guaranteed maximum-price contracts. That trend “could pave the way for a return of cost-plus contracts that were prevalent in many overheated markets pre-2008,” Hutchison says. “However, this is going to require proactive third-party project and cost management oversight that is crucial in cost-plus arrangements to ensure value for money for the owner,” he says.

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Gary J. Tulacz has been, since 1993, senior editor in charge of ENR's **Top Lists**, which bring structure to the huge global construction industry through annual surveys and market analysis of its key segments and major players. The array of surveys rank companies, based both in the U.S. and outside, which perform general contracting, specialty contracting, engineering, architecture and environmental services, among other specialties.

The rankings, based on annual revenue from work at home and abroad, are further divided into specific market categories. [Click here](#) for descriptions and schedules of ENR Top List surveys and access to information on current and past listed firms.

Gary also created the ENR Top 100 Green Contractors and Design Firms rankings and the ENR quarterly Construction Industry Confidence Index that measures firm executives' market outlook.

This survey data is used by industry firms and other businesses, government agencies and academics also to gauge the health of the global construction market.

A graduate of Fordham College in New York City and the Fordham University School of Law,

Gary previously wrote extensively on employee relations in such areas as labor and immigration law and employee drug testing.

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