

UK Market Trends

SAMPLE REPORT

2018/19

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2.1 About Environment Analyst

Environment Analyst (EA) is a publishing and business research organisation with a remit to track performance and opportunities within the environmental services sector, with a particular focus on the environmental consulting (EC) and support services market. Our two core products are:

- **Market Intelligence Service – Global**
- **Market Intelligence Service – UK**

These subscription services include many reports issued throughout the year, and around 60 competitor profiles. Additionally, they include environmental services business news (global and UK channels) and Market and Company Insight articles.

For more information, please visit www.environment-analyst.com.

Environment Analyst also publishes the Brownfield Briefing and Development+Infrastructure specialist news and information services. And we run conferences, awards and other events for the environmental services sector. For more information, please visit www.brownfieldbriefing.com and www.environment-analyst.com/dis/.

2.2 Report methodology and definitions

For details about the methodology and definitions used to compile this report and others in the UK Market Intelligence Service series, please download the Methodology and Definitions document from the EA website [www.environment-analyst.com/uk-mis].

Our overarching research methodology allows for continuous adjustment of market totals and market forecasts in light of revised company performance data, economic growth projections, and policy and other announcements impacting on the fortunes of the environmental consultancy sector.

2.3 Acknowledgements

We are very grateful to the environmental consultancy firms that have assisted us by completing our surveys, participating in email/phone/face-to-face interviews and verifying/commenting on their company profiles. Our thanks go to all who have helped.

2.4 Accessing other reports and profiles in the series

Subscribers to the EA's UK Market Intelligence Service can also download the accompanying Company Profiles and other reports in this series separately from the special download page [www.environment-analyst.com/uk-mis].

For details of how to access, please contact Yuliya Stuart at yuliya@environment-analyst.com or call (0)1743 818 008.

3. Executive summary

These findings are based on Environment Analyst's 2018 UK Market Trends Survey conducted during February to June 2018 ("the survey"), which was completed by over 200 environmental consulting (EC) professionals and business managers. This analysis presents the raw results from the survey – via unweighted mean averages – and does not include reference to EA's wider work profiling the market through detailed assessment of environmental consultancy firms and our own market modelling/forecasting.

The survey findings generally indicate that the larger EC firms are continuing to do well through 2017/18, buoyed by the proliferation of long-term, large-scale infrastructure and complex development projects. This has translated into generally positive KPIs in terms of revenue growth, profitability, pay rises and team sizes. However, it is a different story for smaller firms who generally appear to be streamlining, impacted by slowing growth in top line revenue, team sizes and pay rises over the last twelve months. But at the same time, they are achieving improved margins and fee rates.

On the face of it Brexit uncertainty appears less of a concern than in last year's survey, although longer term growth forecasts are still tempered. Having come through the economic and market waverings immediately following the June 2016 referendum vote, the most recently surveyed crop of respondents appear more confident in the future outlook with UK EC market prospects for the next five years back up by 1-2 percentage points on projections made last year – although still not as high as those recorded in the 2016 survey undertaken before the Brexit vote. Specific service areas including climate change & energy and ecology/landscape are expected to surge ahead, while demand in areas more reliant on discretionary spending including environmental/sustainability policy and strategy look to remain softer.

The international market outlook is still rated stronger than that domestically, with prospects for 2018/19 in the survey compared to last, headlined by the strength of the markets in Western Europe (with the UK market negatively impacted in the 2017 survey in the wake of the Brexit vote), a notable jump in the outlook for the South East Asia region and continuing strong growth expectations for Africa.

Overall the results this year show a rebound in the perceived five-year growth prospects for the UK and international markets as viewed by UK-based respondents, which last year had dropped to its lowest point in the nine years that EA has undertaken the Market Trends Survey.

Key statistical overview

- **Ongoing deceleration of average annual revenue growth** – while smaller firms continue to struggle, but large firm participants report improving performance. Large firms (those with >£10m UK EC revenue) reported a 2.4% increase in revenue growth to 2.4% last year (unweighted for turnover) compared to 2.1% in 2017, the ninth year of this survey. Meanwhile, those with <£10m UK EC revenue reported an annual growth of 5.0% in 2017, up from 4.7% in 2016.
- **Over 86% of firms met or exceeded their 2017/18 revenue targets** – both large and small firms – suggesting that the market is generally performing well.
- **Average operating margin increased** – reflecting once again a focus on cost-cutting to achieve better margins on a tight market.

Staff trends, fee rates and service areas

- **Over half of EC firms reported a 5% increase in staff** – reflecting a focus on recruitment by an almost 5% increase in staff, up from 4.1% in 2017, and a 0.9% increase in staff per client.
- **Redundancies** – 10% of firms reported redundancies in 2017/18, up from 8% in 2016/17.
- **Fee rates** – 10% of firms reported an increase in fee rates in 2017/18, up from 8% in 2016/17.

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Fig 3 Operational trends in last year compared with previous years (2)

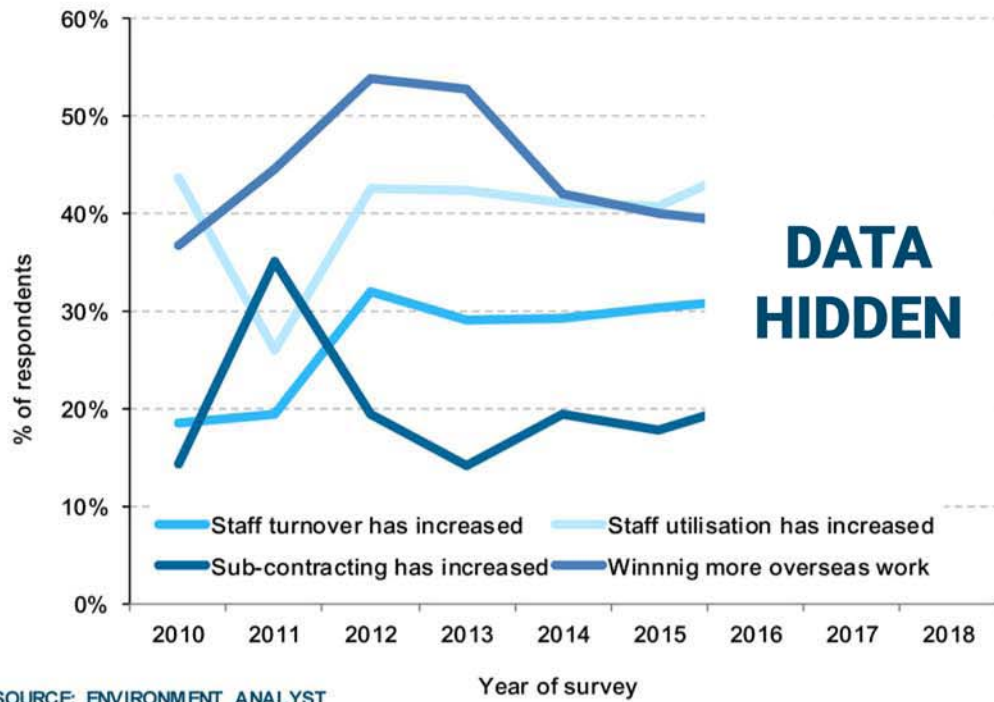
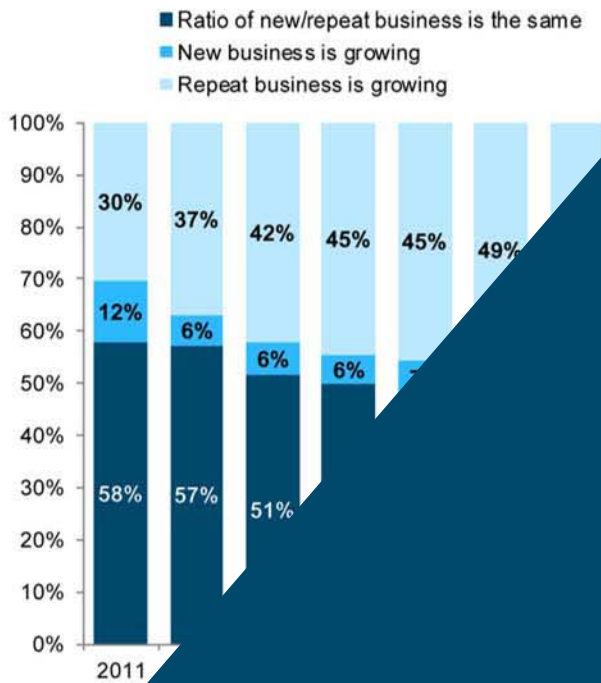
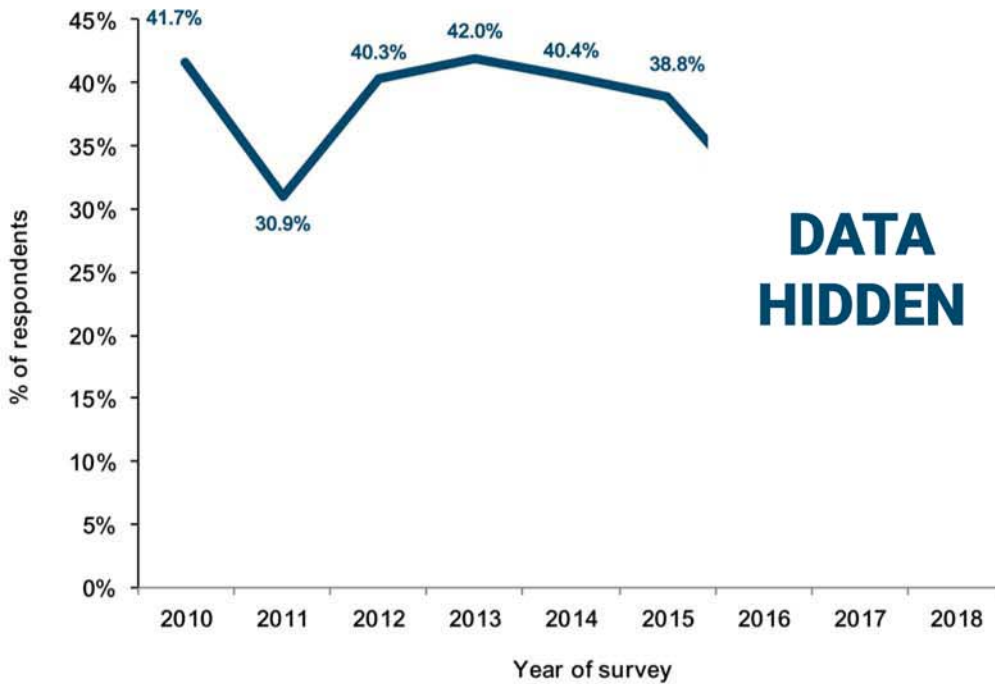


Fig 4 Repeat and new business proportion trends compared to last year



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Fig 8 % of respondents saying Q1 performance is better than budget, 2010-2018



SOURCE: ENVIRONMENT ANALYST

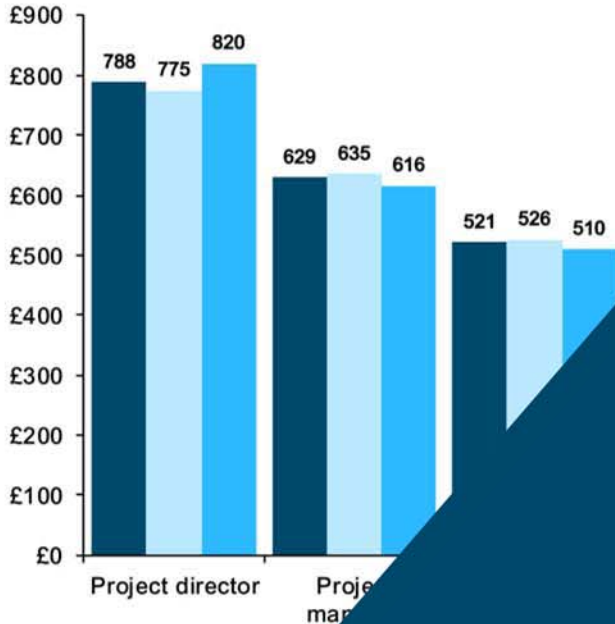
- **Over 86% of firms met or exceeded their budgets in Q1 2018**, although small firms are doing better (in a reversal of last year's findings) with 90.2% of small firms meeting or exceeding their Q1 sales targets, compared to 82.8% of small firms. But the general picture is similar to last year when 80.2% met and or exceeded their targets. This year, perhaps with an element of prudent planning paying off, respondents underperformed during the first quarter down 1.4 percentage points on the report.
- **Profit margins improve for both large and small firms** this year. Large firms saw a 1.5ppa increase at 9.4% in 2017 compared to 7.9% in 2016. Small firms saw a 1.7ppa increase at 11.2% profitability for 2017 compared to 9.5% in 2016. Large firms are generally more conservative in their profit planning and their margins remain broadly consistent this year while small firms saw a 1.4ppa uplift of 1.4ppa to a margin of 12.6% in 2017.
- **Yet more firms running at an operating loss** this year. 12.1% of firms made a loss in 2017, up from 8% in 2016.

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6.2 Fee rate trends

- Average daily fee rates at lowest level for six years – average daily fee rates across the hierarchy of levels have reached their lowest point in five years with an average decline of almost 3% from the levels reported in our 2013 survey.
- Average daily rate for a senior consultant is £521 – down nearly 5% on last year. In large firms the figure is actually slightly lower at £510 (down 11% from the £573 reported last year) and compared to the £526 for small firms. Indeed large firm rates are reported as lower across the board that is up until director level.
- Director level input averages £788 per day and here the gap between the current average for large firms (at £820) has narrowed with that of small firms (£775) this year. Last year the rates reported were c£900 and £755 for large and small firms respectively.
- Contraction in fee rates at most levels, although small firms see small rise – when looking at the average fee rates from all respondents a contraction can be seen at every level, barring support/admin staff which has seen a 3% y-o-y increase. The most significant contraction can be seen at consultant level, with fees down almost 10% on last year. However, when broken down by firm size, small firms have in fact seen fee rate growth at project director (+2.6%), project manager (+2.6%) and support/admin level (+3.7%), while for large firms the only positive fee movement was for support/admin level staff. It seems that the playing field is levelling out much more in terms of fees (small players vs large firms) yet during the years immediately following the recession annual survey typically indicated that small companies were prepared to make deeper price cuts in order to win work than their large counterparts.

Fig 14 Average daily fee rates



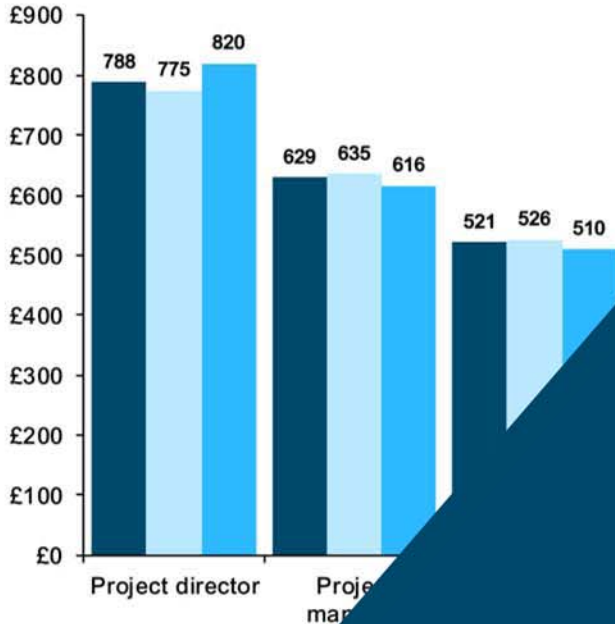
SOURCE: ENVIRONMENT ANALYSIS

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Fig 14 Average daily fee rates



SOURCE: ENVIRONMENT ANALYSIS

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Fig 16 Average remuneration change in last 12 months 2014-2018

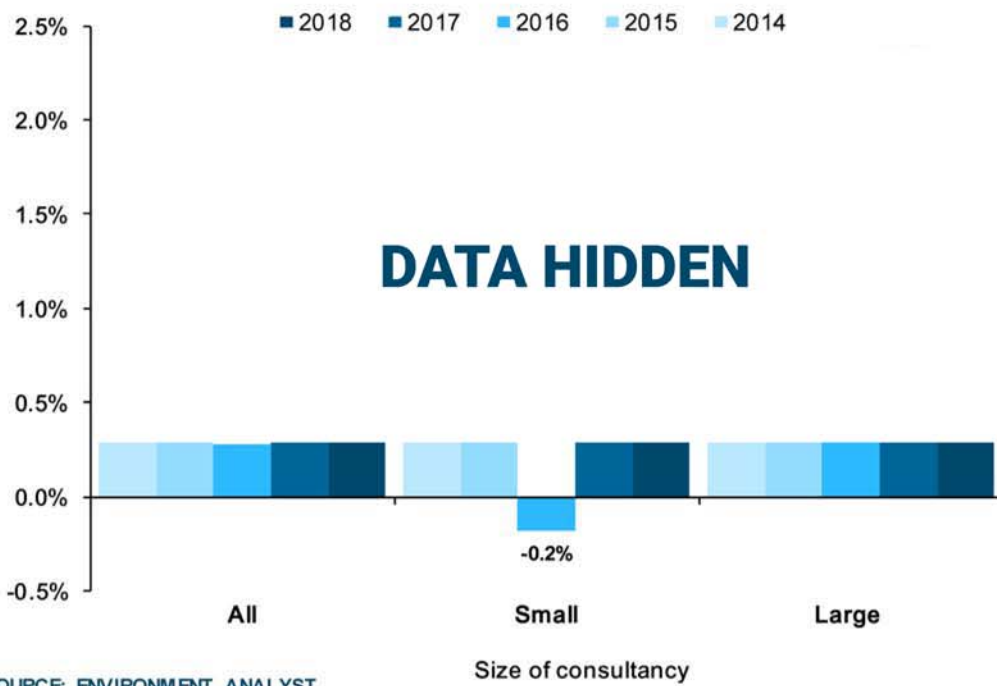
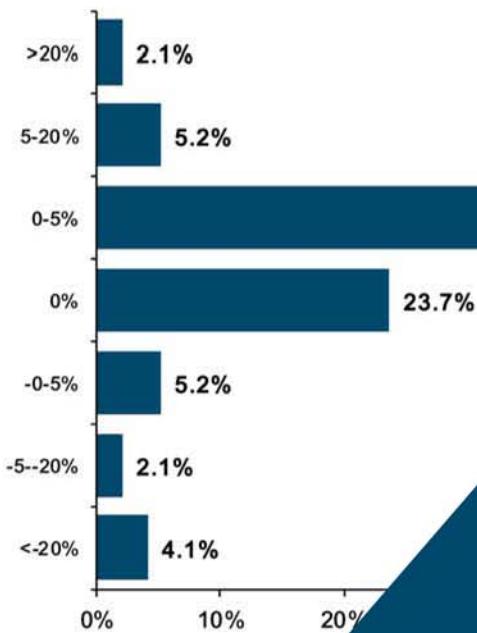


Fig 17 Range of average remuneration change (2018)

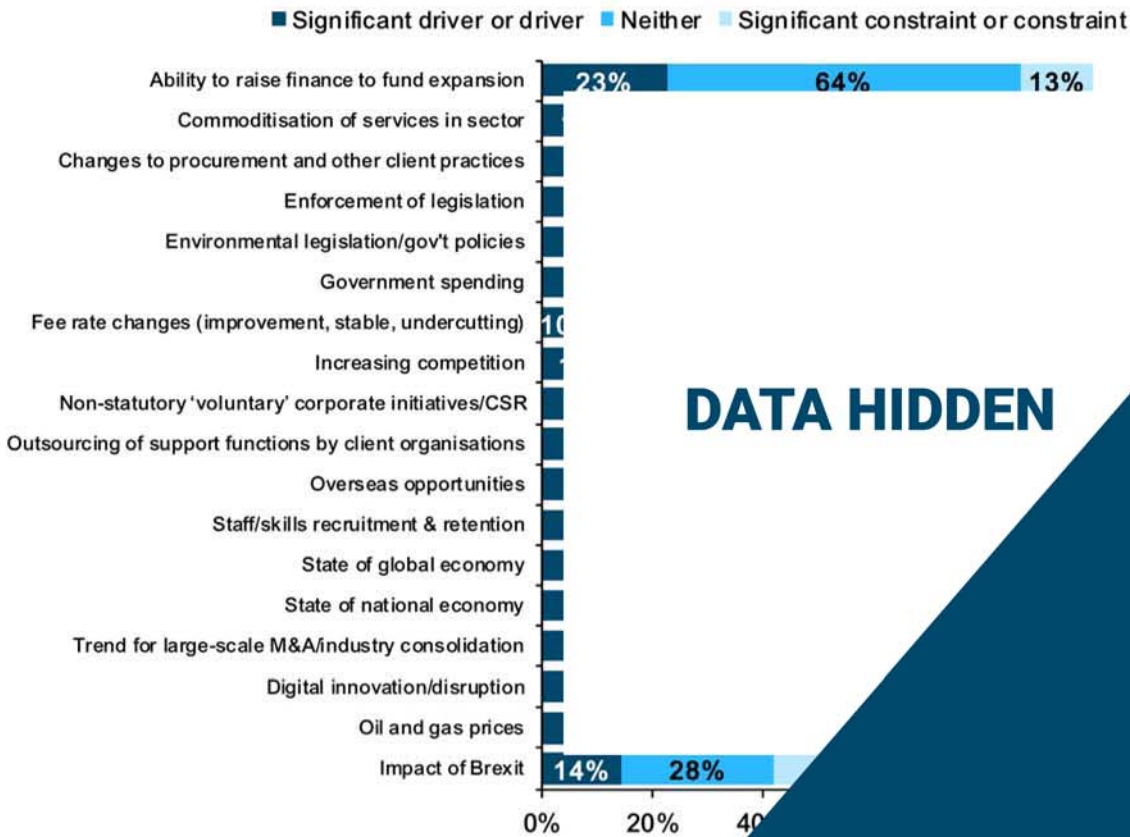


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9. Strategic trends and drivers

This section provides a summary of the market trends survey results relating to the main business drivers and pressures for environmental consultancies operating in the UK. In the survey, environmental consultancies were asked to identify which drivers, disruptors and risks will have more or less impact on their business and market demand over the next few years (see figures below).

Fig 36 Drivers influencing demand for environmental consultancy over next five years



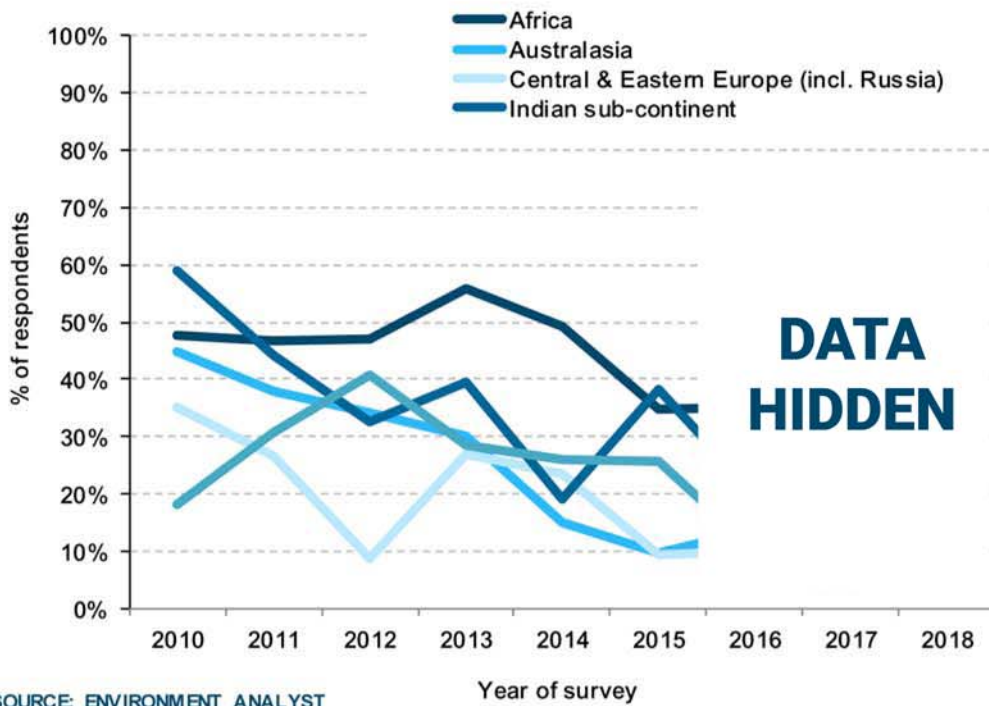
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SOURCE: ENVIRONMENT ANALYST

- Overseas opportunities overtakes enforcement of legislation as the most significant driver of business over the next five years that will increase demand for environmental consultancy. Compared to last year's survey, enforcement of legislation was cited as a driver by 44% compared to 28% this year. However, due to a distraction from the environment by Brexit, there is strong government support for the environment.
- Legislation/policy has become a more significant driver in the near-term future of the industry, reflecting the continued focus on environmental standards and law post-Brexit. This is a significant change from the 2017 survey when Brexit was a significant constraint on the industry.

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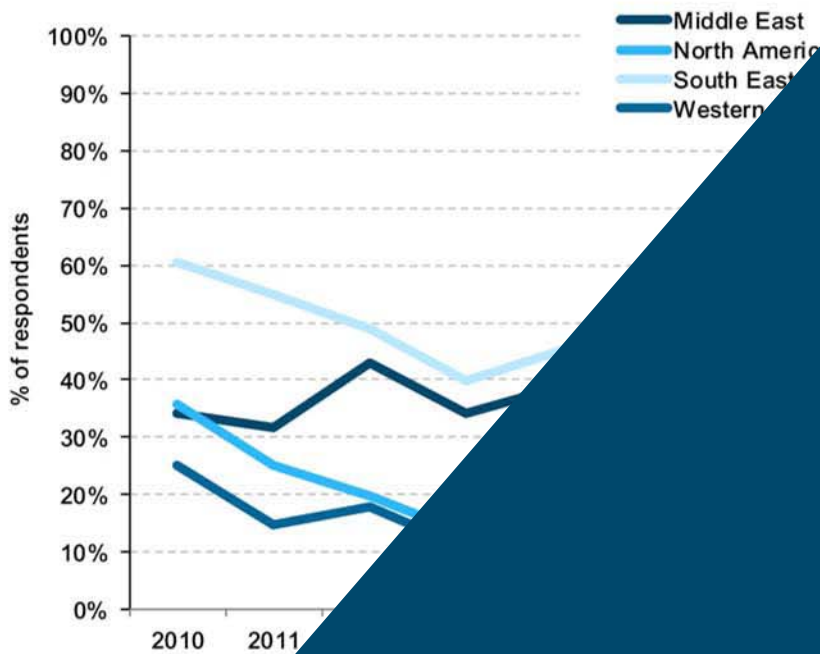
Fig 53 Global regions turnover prospects for next 5 years across first 5 of 9 regions, comparison 2010-2018



SOURCE: ENVIRONMENT ANALYST

* % of respondents forecasting strong or substantial growth in next 5 years (in excess of 5% CAGR)

Fig 54 Global regions turnover prospects for next 5 years across second 4 of 9 regions



SOURCE: ENVIRONMENT ANALYST

* % of respondents for...

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