The Future of the Environmental Services Industry: A Shift to Pollution Prevention

The US environmental services industry, according to the US Department of Commerce, is an $88.9 billion a year industry representing 689,025 professionals and approximately 43,800 firms. But it’s an industry in transition, as it continues to consolidate with a steady rate of merger and acquisition activity and a shift in services. The industry expects a substantial number of acquisitions to take place over the next three years. With the transition comes challenges and opportunities for firms providing environmental testing and analytical services, remediation and industrial services, and consulting and engineering. The industry’s current state of transition into new services and consolidation is setting the stage for a strong future.

A Shift From Remediation

Where remediation and cleanup activities previously drove environmental service companies’ growth, new service segments - especially industrial water quality, environmental outsourcing and economic development -- are now the catalyst for revenue growth. Likewise, customers’ desire for quality and service will be a big influence in environmental service firms’ business plans.

While remediation opportunities will still exist, especially with regard to Brownfields redevelopment, they will not lead the industry. Instead, services centered around pollution prevention and strategic environmental management will drive the future. Environmental services firms primarily will be in the business of offering solutions to their clients’ problems.

Survival in the new market will depend upon developing the necessary skills to respond to client needs. To meet economic demands, environmental businesses face the challenge of improving business skills with the goal of becoming service organizations. A survey conducted by BTI Consulting Groups shows the discrepancy between the skills environmental firms think are most important and the skills customers think are most important:

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<th>Environmental Firm Customer</th>
<th>Customer</th>
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<tr>
<td>Technical Skills 39 percent</td>
<td>17 percent</td>
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<tr>
<td>Full Service 12 percent</td>
<td>1 percent</td>
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<tr>
<td>Quality Service 14 percent</td>
<td>52 percent</td>
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In the ideal client relationship, it would be impossible to tell where the work of the consultants leaves off and where the work of the client begins.

Emerging Global Market

Estimates put spending on infrastructure in the third world at $4 trillion. Just like the domestic market, success in the international market will depend on moving beyond the regulatory paradigm. Successfully making the shift in the domestic market is effective preparation for expansion to the international market which is not driven by regulations.

A report by the University of Tennessee, entitled "Analysis of the International Environmental Restoration and Waste Management Market: An Overall Assessment," estimated the international market for environmental technologies to be in excess of $148 billion dollars per year. Japan, Germany and Central Europe are expected to have the largest overall environmental markets, while Mexico, India, Argentina and Brazil -- although their total market size is much smaller -- will have the largest overall growth rates during the next five years.
Japan and Germany have been identified as needing significant remediation efforts, accounting for approximately 90 percent of the total remediation revenues. Additionally, these two countries along with the rest of the developing industrial world are showing a growing commitment to spending money on pollution prevention, waste minimization and water quality.

**A Shift In Focus**

Increasingly, the industry is moving away from the "bidding the job" paradigm. There is a shift in focus away from being one in a pack of providers to being selected as a sole source provider. Customers’ perceptions about engineering services are changing, too. Once thought to be costly, customers are seeing that engineering services create value that increases profitability. Firms are shifting from selling each job one by one, to ongoing, sustained relationships based on service and support. There are bottom line benefits to going beyond the compliance threshold. If you sell the solution, the customer will look to you for all of the services.

**Where Are We Going?**

There is no denying that the market is in transition. Survival will depend on moving beyond the paradigm that "environmental" means "cleaning up." Though internal growth rates will be low, mergers and acquisitions will continue and new service offerings will be critically important to a firm’s success. Personal, solutions-driven service will be the important differentiating factor that will set successful firms apart from the competition.