

THE BUSINESS OF ARCHITECTURE

YOUR GUIDE TO A FINANCIALLY SUCCESSFUL FIRM

K. DIXON ARCHITECTURE, PLLC / PONESS

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The Business of Architecture

The Business of Architecture is the essential guide to understanding the critical fundamentals to succeed as an architect. Written by successful architects for architects everywhere, this book shows the architecture industry from a corporate business perspective, refining the approach to architecture as a personal statement to one that must design and build within the confines of business and clients. *The Business of Architecture* will educate new and experienced architects alike with valuable insights on profit centers, the architect as developer, how to respond to requests for proposals, intellectual property, and much more.

Kathy Denise Dixon, FAIA, NOMA, is CEO of WMCRP Architects, Inc. and Principal of K. Dixon Architecture, PLLC. She is a licensed architect with more than 26 years of experience involving sundry building types and facilities. She has been involved in every stage of the construction process and has experience in educational, commercial, residential, and government projects. Ms. Dixon is also currently a full-time professor in the Department of Architecture at the University of the District of Columbia in Washington, DC, USA.

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The Business of Architecture

**Your Guide to a Financially
Successful Firm**

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Timothy A. Kephart and Karl L. Moody

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Foreword

Rainy Hamilton, Jr., FAIA, NOMA

I was pleased when Kathy called and informed me that she had begun the process to write this book, and I was thrilled that she asked me to write the foreword. This book, a resource providing insight as to the importance and sheer necessity of managing a design practice as a business, will be invaluable to both aspiring and practicing architects.

Choosing to be an architect can come from many places. For me it was a decision made early on in life. I remember vividly a career day at Barton Elementary School in Detroit, Michigan. I heard loud and clear that artists struggled financially but my passion for drawing and painting was known. Then a counselor in middle school suggested combining art with my other loves, drafting and model building. The sum was architecture.

Architecture is a noble profession, one next to Godliness, where we create environments for humankind—spaces, landscapes, and structures that inspire our souls. Our reward is being able to produce a volume of work that impacts society in a positive and meaningful way that endures for decades, if not centuries, beyond the practitioner's life. This is the architect's legacy.

While noble however, the practice of architecture is wrought with challenges. It is often highly competitive as clients pit design professionals against each other, often based on fee and rarely ranking the level or quality of services provided. In fact, thrifting of our services by clients is not uncommon.

Time and again, our service is treated as a commodity or even an evil necessity for the procurement of a building permit. We've lost ground as design-build scenarios proliferate the industry, led not by architects but by contractors. Challenges are exacerbated when the economy declines and recession cripples the construction industry.

In reality, the business of architecture is different than what professors traditionally teach. Professionals do not warn aspiring

students of the complexities of practice beyond design and the ability to craft beautiful renderings. *My mother never told me there would be days like this*—days of continuous calls to collect earned fees of worrying about leases for expensive equipment, of developing and producing marketing collateral, and of meeting payroll every other week. Clients seeking your services just walk in the door, right? Not exactly. In my 33 years of practice, this is the first economic climate where clients are calling weekly.

To be successful, the modern architect must understand business: The business of architecture and the client's business. The architect must learn how to balance the client's project. This typically involves balancing the resources (*funding*) with the program (*what is to be built, size, volume, etc.*) and the quality of what's constructed. Add to this the science of shepherding the project through the office; from proposal to budget to tasks to deliverables, and you get a rather daunting responsibility, especially for the small practitioner.

For most of us, it is about the art of architecture and the creative problem solving process. But the practice of architecture can't be all about that. Business skills and knowledge are absolute must-haves along with some luck, prayers, and blessings. With the right combination of all these, an architectural practice can make it as Hamilton Anderson Associates—a start-up practice founded in 1993 on a single credit card and one PC—has done for 22 years.

A couple of books I relied on and remember reading on an almost daily basis, before starting my practice: *Think and Grow Rich—A Black Choice* by Dennis Kimbro and Napoleon Hill, and my Bible.

This book, *The Business of Architecture*, provides a vital perspective on the business side of the profession, and presents a collection of ideas and concepts on how to be successful in the architectural practice. It is a must-read if you're considering this, or a related profession. Thank you, Kathy!

Preface

Kathy Denise Dixon, FAIA, NOMA

I wrote this book because I feel that there is a critical need for the architectural industry to conduct a self-examination and essentially reinvent itself. I have been in the field for 26 years and feel it is a topic that I have some credibility speaking about.

This book will discuss the architectural industry, not from the view of an architect or designer, but from a corporate position of business growth. We will discuss themes of procurement, mergers and acquisitions, intellectual property, and design as product. We hope that the reader will learn to look at the business of architecture not just from a creativity and design perspective, but also from a financial and growth viewpoint.

Although I've always wanted to write a book, it took me several years to determine a topic. Of course, it should be something that one is comfortable and knowledgeable about, and for me, architecture fits the bill. I have always loved the profession and have known since high school that I wanted to become a licensed architect and own my own firm.

However, some 20 years into the journey, I realized after two recessions that running a firm is a difficult business model for growth. Even as a young architect, I was often told not to go into this discipline for the money because architects don't make a lot of money. But I believe we should revisit that statement. Just on the basis of the level of education and the skills required, architects should be valued more highly and command higher salaries.

Exploring the business aspect in the book are two individuals with significant experience in Corporate America, who will discuss business paradigms that guide other professions. Karl L. Moody and Tim Kephart have worked with Fortune 500 companies for over 10 years and have great insight of how those entities view architects, the design process,

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and the industry. You will be surprised to learn how the product of our labor is easily dismissed.

As a result of writing this book, I've become more of a business person and less of an architect. I mean that in the sense that I have less focus on the day-to-day tasks of an architect and give more time on my role as a stockholder or chairman of the board. The reason for any business to exist is to make money and grow revenue. Yet somehow architects seem to separate that from the equation and focus solely on design, and then suffer the consequences.

Much of our insight gleaned for this book was the result of years of experience in the profession as well as involvement in the process of building a start-up company, AECXCHANGE. Our efforts to bring a new paradigm to the industry have shed light on old schools of thought that have subsequently been keeping the industry from growing. Over the course of completing this book, I closed a deal on the acquisition of another firm which put into actual practice a few of the ideas that we presented in here.

I would like to thank my co-authors Tim and Karl for their insight and commitment to this book, to the AECXCHANGE, and to the growth of KDA and now WMCRP Architects. Moreover, I'd like to thank my mother and father (he worked as an architect for his entire employment history) for their support and love throughout my life and career.

Acknowledgments

Kathy Denise Dixon, FAIA, NOMA

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Introduction

Architecture has an identity problem.

Most people when confronted by a licensed architect will almost immediately respond by saying, “Oh, you draw blueprints”. And that would have been a correct statement some 25–30 years ago. But the truth is that blueprints haven’t been used in decades. Yet the image of the architect in the mind of the public has not changed: the architect is simply someone who draws blueprints—creative, artistic but does not fill a vital role in infrastructure building.

The profession’s lack of identity, however, can be largely attributed to architects themselves. Regrettably, the industry has done a poor job of expressing itself, describing its role, and explaining its relevance in today’s world. While other professions have encroached into the realm of architecture, architects have kept the status quo. They have not exerted any effort to adjust to the current marketplace, or learned to incorporate business skills into their wheelhouse.

What’s interesting and perhaps, promising, is that some sectors in the industry are starting to acknowledge that something needs to be done. For instance, the American Institute of Architects (AIA), which is the largest organization representing licensed architects, has finally recognized the need to create a public awareness campaign that speaks of the role of the architect. The group launched a video ad campaign in an attempt to inspire people to appreciate the work that architects do.

Although a noble and admirable effort, the ad fails to get to the crux of the matter: Explain why the architect is needed and promote the value he or she provides. It continues to speak only to the 2 percent of the population who hire architects, and not the remaining 98 percent who need, experience, and benefit from architecture on a daily basis.

Every so often, and with more regularity, we see published articles such as the one in the January 2015’s issue of *Forbes* magazine,

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“Architecture Continues to Implode: More Insiders Admit the Profession is Failing.” Judging from the strong opinions voiced and cited in the editorial, it is apparent that a good number of architects are aware that something is awry. Yet they remain seemingly paralyzed, unable to collectively come up with a concrete plan of action to counteract this downfall.

Perhaps this is because academia does not prepare architects to do business, only to design. Not a lot of emphasis is placed on how their work should appeal to the broader population, or on the financial aspects that should be part and parcel of being an architect. And true enough, design has become the currency with which an architect gauges success. In fact, no other industry has so strongly girded itself against the need to actually engage in commerce

I don't believe that academia is the sole culprit, though. The profession's well-known history of architects coming from wealth themselves and/or plying their craft exclusively to wealthy patrons has lingered far too long in the memory. If architects have always been given commissions due to their personal and familial connections, how will they learn to actually make a living out of it? Or how will the industry transform into one that really incorporates a transaction-based paradigm?

This book explores how the internet, e-commerce, and our product based economy will ultimately change the architectural profession in the same way it has affected many other industries via online competition, speed of delivery, and advertising.

Architecture's historic tradition of being the “Gentleman's Profession” has damaged the industry in other ways aside from adapting to commonly used monetary exchange.

The industry has established itself as a homogeneous and hopelessly exclusive profession that has been slow to welcome individuals into licensure, including women and underrepresented minorities. It is not even too far of a stretch to assume that the lack of inclusiveness has slowed down the development of the architectural profession. Other disciplines like medicine and the legal profession have, for years, encouraged, promoted, and actively sought out diverse individuals to join their ranks, but architecture has remained largely homogenous.

It was 1968 when, in a statement, American civil rights leader Whitney Young Jr. challenged the profession to end its silence on the issues of race and prejudice.

You are not a profession that has distinguished itself by your social and civic contributions to the cause of civil rights, and I am sure this does not come to you as any shock. You are most distinguished by your thunderous silence and your complete irrelevance.

It is no surprise that, decades after that powerful statement was made, the profession's irrelevance has become more apparent as the silence grows more thunderous.

The inclusive nature of a community of individuals coming from multiple backgrounds and diverse perspectives can only be beneficial to the profession. If the architectural industry is going to save itself, it must move quickly to engage those who have traditionally been barred from participation.

It's also no surprise that the emergence and subsequent burgeoning of "public interest design" has taken the profession by storm due, in part, to its concept of inclusiveness. This practice also provides the perfect opportunity for architects to *create the deal* instead of just *waiting for the deal* to come. Public interest design may well be the seed that helps spur the rebirth of the architect.

The deficiency of architects in the business side of their profession thus gives rise to the question: What are the methods used by other disciplines to run successful practices that seem to elude architects?

In this book, we intend to examine some of the standards and common business edicts that may help transform the architectural profession and make it a more relevant contributor to society. We will also discuss branding and marketing strategies which make the best use of the many technology tools that are available today. In addition, the book explores and presents the sound entrepreneurial ideas and practices that the architectural industry has not yet incorporated even as it is one of the oldest professions on the planet.

For instance, media advertising, franchising, and dealerships are among the most commonly used business tools, yet the average architecture firm has never considered implementing any of these rules of thumb. And while the ability to claim intellectual property rights is one of the most valuable aspects of an architect's career, most firms have no idea how to take advantage of these provisions for financial benefit.

The metamorphosis of architecture into a new industry will neither be easy nor quick. This transformation has been greatly needed, and may have even started ever so slowly over the years. However, the

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longer architects wait to reinvent themselves, the greater the chance that others outside the profession will control the change and direct the new alignment to further their interests. One thing that has become clear is that firm owners will need to not only hone their design and project management skills but also sharpen their business acumen in order to stay competitive and be in the best position to succeed.

For such revolutionary changes to happen, there will have to be a paradigm shift on the part of the architect, from rethinking the idea of architectural design as a process, to focusing on the product that the process creates. This is generally considered taboo, perhaps to some even criminal thinking, especially coming from an architect. Yet, it needs to be voiced because the change needs to happen. Even if architects don't do it, eventually someone else outside the industry will. In fact, it's already starting to happen. This is one of the major issues that architects should take immediate action on, as professionals in related disciplines take over the market share of what has generally been the architect's field of specialization.

There's a lot that can be said about the changes that need to be made and the strides that have to be taken by the architects themselves, and the industry in general. But rather than use more words to complain about everything that is wrong with the profession, we will instead attempt to provide solutions. This starts with changing the profit margin and adding value for your firm, no matter the size or age of the company. Focusing on the value of your firm and knowing how to increase that value through means other than design projects is one aspect we will explore. A firm focused on financial value has greater opportunities, is more likely to be acquired, and would have an easier time accommodating ownership transition.

Acquisitions and mergers have recently become the means through which many firms substantially grow. Yet most architecture firm owners don't actively position their company to be desirable for investors and potential buyers, or seek to purchase other companies even if it were a sound financial move. The profession needs to see these established business strategies as worthwhile pursuits rather than a distraction to their design focus.

In the final chapters of this book, we will explore these business options and explain how the various practices can be applied to your firm. If you are in a position to purchase, we will also give you valuable advice on what to look for in a firm.

I was compelled to write this book as a result of a combination of factors, not the least of which is seeing the writing on the wall with regard to the rapid pace of change in business. Another driving force for me is seeing just how resistant the architectural profession has been to respond to change. Such inability or unwillingness to respond will surely confirm the pending implosion that was alluded to above.

The presidential election over the past year and its aftermath, particularly as it pertains to the American Institute of Architects (AIA) and its “tone-deaf” response, further confirms that the profession is disjointed. Calls for social design justice in the wake of a vicious and cruel campaign season are warranted, but so are the hallmarks of a capitalist society which includes pursuing infrastructure related projects for the members. How do both of these schools of thought jointly exist? There is no easy answer. How does the professional improve its value to society and contribute to social change while also providing a significant source of revenue for those in the industry?

After 26 years in the profession, one might suggest that perhaps it’s time to throw in the towel and switch careers. But I’ve already invested too much blood, sweat, and tears to just walk away. More importantly, despite and in spite of its flaws, it’s a wonderful profession. We are trained to see the connectedness of the world in ways that others don’t understand. It’s just a pity that the rose colored glasses that many architects look through have distorted the reality that we are *in business*, and in business to make money.

My goal is that this book becomes a wake-up call to practicing architects with years of experience, as well as a guidebook for young architects entering the profession who will benefit the most from the inevitable and necessary business transformation.



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I **Architecture Today: The Current State of the Profession**

Kathy Denise Dixon, FAIA, NOMA

Architecture has always been a well-respected profession. History would tell us however, that it is also a career that is primarily reserved for wealthy white males, serving a clientele composed mainly of those who belong to the highest social and economic circles. The public's general impression of architecture was that it was a service for the elite, and architects, for the most part, were fine with that impression.

Over the last few decades however, the profession has been increasingly looking inward with self-evaluation. Part of this self-reflection is brought about by the dawning realization that architecture after all, is not just about creating great design. For architecture to survive and architects to thrive, the profession must embrace a purpose that includes creating value for the firm and generating wealth as well as contributing to the culture of society.

For us architects, boosting income for ourselves and for our respective firms means that we need to show the greater public that good design is not simply a luxury, but an important factor in creating better living spaces, healthy environments, and more desirable real estate investments. Only then can we maximize the opportunities around us to generate a steady income stream.

But just how easy is it to accomplish this feat given today's challenging economic conditions?

The Realities of the Market

At this point in time, a paradigm shift for architects would do wonders for the profession, injecting some fresh perspective and vigor into an otherwise ailing industry. It does not however, change the reality that the building market isn't exactly at its most ideal point in the financial markets.

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For one, the slowdown of the economy caused by the recession of 2008 also negatively impacted the professionals in this field. It has been reported that nearly 30 percent of individuals working in the industry lost their jobs during that minor depression. The unfortunate reality is that architecture continues to be the canary in the coal mine when it comes to the U.S. economy, and design professionals are among the first to feel the effects of an economic setback.

A downturn in the market results in decreases in lending, and ultimately, a substantial decline in construction. When no one is building, the skills of an architect are not required. During these times, keeping an architecture firm afloat is a challenge, and may compel industry professionals to look into other entrepreneurial ventures or career paths.

There is some light at the end of the tunnel however, as we seem to be leaving the rather dismal period behind with the construction sector starting to see some activity. Interest in architecture as a career choice has gone up as well. The NCARB (National Council of Architectural Registration Boards) reveals that there are a record numbers of individual taking the examination to become architects. This is very encouraging considering how the recession's repeated layoffs devastated the profession in the years from 2008 to 2012.

But the questions still remain: Are these young test takers aware of the challenging business obstacles that are ahead of them? Will their design skills be enough to get them on the path of a lucrative career? Are they ready to adapt to the realities of the industry?

Since architecture schools do not usually teach business skills but focus almost solely on buildings and aesthetics, it's not likely that young architects today are fully mindful of what awaits them in the *real* world. Those who are new to the practice could find themselves in for a rude awakening as they discover that the ability to create the best designs does not automatically lead to financial prosperity.

Both new and practicing architects should then arm themselves with the knowledge of the state of architecture as a profession and as an industry today.

A Look at the Factors Affecting the Industry

There are several serious issues that surround the profession at present. These include: The tenuous relationship between academia and the workplace; the encroachment of other disciplines on the

traditional architect's role; the changing technology and advent of e-commerce; the economic "roll-up" of other industries; and demographics and diversity.

These five factors will greatly influence how the profession weathers the upcoming years, both financially and socially. Will the traditional architect cease to exist at all due to outside influences from other disciplines? Or will the current acquisition/merger focused economy leave only the large-scale players in the design game? Given the volatility of the times, there could be a number of ways in which things can play out. But ultimately, the answers lie on how we, the members of this profession, respond to the changing times and factors.

Let's evaluate these concerns one by one:

Demographics

Records from the **Bureau of Labor Statistics** indicate that there were 112,600 architecture jobs in the United States in 2014. An NCARB survey however, shows that there are only 107,581 licensed architects. The lower number of licensed individuals compared to the number of jobs could possibly be attributed to architects leaving the profession during the recession and not returning. It is anticipated that there will be a shortage of architects over the coming years as the construction industry picks up steam again.

According to **First Research (Dun and Bradstreet Company)**, the architectural services industry earns a combined revenue of \$33B annually. There are approximately 23,000 firm locations with most companies having fewer than twenty employees. Further, Salary.com indicates that the mean salary for an entry level Architect I position is \$47,639. This is in comparison to \$65,014 for Mechanical Engineer I and \$66,144 for Electrical Engineer I. Even from matriculation, the value of the architect is not seen as equivalent to the engineering sub-consultants that they hire.

Fortunately for the profession, the number of licensed women architects is steadily increasing. In fact, the number of females enrolled in architecture school has risen to over 40 percent in accredited programs. Currently, only approximately 17 percent of architects are women but the number is steadily rising.

Having low numbers of women and minorities in the profession is the result of years of silence by the industry on diversity issues. Moreover, concerns such as work/life balance, cost of examination,

and cost of architecture school also play a large role in the low count for female, Black, and Hispanic licensed architects. The profession, like the nation as a whole, needs to come to grips with what other developed countries have achieved with regards to paid family leave, healthcare, gender pay equity, and other related issues in order to retain women in the field of architecture.

Revenues

Thus far since 2016, the discipline has been steadily growing overall, with the Architectural Billings Index creeping upward since January of last year. Signs are indicating that the profession has weathered the storm and is slowly bouncing back to the revenue highs prior to the 2007 recession.

Yet, surviving the hard days does not automatically indicate that easy times are ahead. Even with increased inquiries and billings, architectural services remains a very challenging industry, one where making high revenues is always a goal but seldom an achievement.

This is largely because for designers, the design phase never ends, and when more time is spent on one stage than projected, billable time could be lost. Plus, as a project moves forward, “scope creep” could gnaw away what might have been profits. The only way to ensure consistent revenues is to have many projects for the firm, but this could also backfire because you would end up accumulating backlog in the process.

That's why it's a wise venture to look for other sources of revenue other than from usual means. The architect is always waiting for a client patron to come through the door, that's a given. But what if revenues can be made through means that don't necessitate having to respond to Requests for Proposals or Design Competitions? In what other ways can an architect position himself or herself to do design work and get paid without relying on outside influences? Part of the intent of this book is to consider what changes should take place in the average architecture firm, and how the industry itself can create a more profitable business model for architects.

It has long been the mantra that for a firm to do well, it must produce the same design product, but do it cheaper and faster than the competitor. The welcome news on this front is that current technologies are allowing firms to increase their productivity with the use of tools like Building Information Modeling (BIM), 3D modeling and

printing, and space recognition software. Most firms have already transitioned to BIM modeling in order to stay competitive.

In one of the upcoming chapters of this book, we will explore in more detail how BIM and other technology applications of today can improve productivity and boost revenue for architects.

The Architect's Role

The last 20 years of the architectural industry have seen the diminishing responsibility of the architect in the design and construction process as other professionals enter the picture.

For instance, the interior design industry through the American Society of Interior Designers (ASID) launched a national campaign in the late 1980s to regulate and license interior designers. Because of this campaign, many states today have passed regulations that allow the certification, registration, or licensure of interior designers. While this is a positive move for them, it has adversely affected the architectural profession. Design work that might have been completed by an architect is now going to licensed interior designers. Similarly, the construction manager, project management professionals (PMPs), and facility manager are now performing a number of duties traditionally done by the architect.

Design/Build project delivery is another aspect in the evolution of the profession that has transformed the role of the architect. Instead of being the team leader, the architect has been relegated to more of a spectator role, with the General Contractor taking over the leadership position for the length of the contract. What's worse is that design/build is fast becoming the preferred method of project delivery for government agencies and institutions, thus further downgrading the architect's once central role to being on the sideline.

Technology

With the emergence and subsequent widespread adoption of three dimensional technologies like Google Earth and SketchUp software, the profession has become prime fodder for a technological revolution. With these applications pervading not only the corporate setting but also consumer homes, the design process has become more accessible even to those who are not inherently from the design industry. In addition, inexpensive 3D-printing capabilities have created an entire

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offshoot of creative Makers including a niche market of conferences and employment positions for self-defined Makers.

On the one hand, all these technology could enhance some aspects of the architect's duties. But then again, they could also replace the design professional's work altogether. However, there should be some way to harness new software to augment the architect's output rather than compete with it.

As mentioned in the previous section, most competitive firms have already transitioned to BIM modeling. But that's just the start. The incorporation of 3D virtual reality (VR) experiences via fully immersive VR headsets, wherein the client can walk through a full scale building even prior to the start of construction, is already possible.

Such technologies have opened up new opportunities in the design and building industry. Even now, start-up companies like IrisVR are already beta testing the conversion process from BIM models to VR tours. In short order, this could become the norm since clients will now gain a better understanding of the proposed design via VR, than with plans or even 3D models.

The Shrinking Marketplace

[Chapter 5](#) of this book will explore the idea of revenue-producing profit centers and corporate positioning in detail. At this point however, we want to bring to your attention the recent merger and acquisition strategies of international, national, and even local and regional firms as a way of increasing market share.

The buying of smaller or even equal-sized firms by other firms in an effort to get a foothold in either a new building type or geographic area has been an active trend for the past several years. The attached chart indicates the major mergers and acquisitions that have taken place in the industry since 2010. This process of combining firms into single entities or divisions of a greater entity is what is causing the industry to retract or "roll-up," creating a shrinking footprint.

The result of a roll-up is that competition intensifies and companies are now able to offer more and better services under one banner or brand. We have seen this happen many times already in other industries. For example in retail, the big box stores like Lowe's and Home Depot have essentially forced the small local hardware stores out of business. Similar roll-ups have happened with new and used

Table I.1 Mergers and Acquisitions Chart

| Architecture Firm | Acquired By | Year Acquired | Merger/ Acquisition | Current Revenue |
|--|--|----------------------|----------------------------|---|
| 360 Architecture URS Corp. | HOK AECOM | 2015 2014 | Acquisition Acquisition | \$416,549,000 (\$HOK) \$801,000,000 (AECOM) |
| Callison RTKL | Arcadis | 2007 | Acquisition | \$390,285,403 (RTKL) |
| The Freelon Group JJR | Perkins + Will Smith Group | 2014 2011 | Merger Merger | \$350,000,000 (P+W) \$190,000,000 (Smith Group JJR) |
| SHW Group Sorg Architects | Stantec Architecture DLR Group | 2014 2015 | Acquisition Merger | \$319,990,974 (Stantec) \$130,000,000 (DLR Group I Sorg) |
| WHR Architects | EYP | 2014 | Merger | \$41,000,000 (WHR Architects) |
| Wilson Associates | Shanghai Dai Xian Architectural Design Group | 2014 | Acquisition | \$138,184,652 (EYP) \$42,000,000 (Wilson Associates) |
| Ehrenkrantz Eckstut & Kuhn Architects Astorino | Perkins Eastman Cannon Design NBBJ | 2010 2014 2010 | Merger Merger | \$185,000,000 \$183,800,000 |
| Chan Krieger Sieniewicz | Leo Daly | 2009 | Acquisition | \$175,900,000 |
| STH Architectural Group | Dewberry | 2015 | Acquisition | \$142,000,000 |
| Wilson Architectural Group | | | | \$133,600,000 |

automotive sales, movie theatre chains, fast food chains, food production, and department stores.

This is the reality whatever sector you are in, and the architecture industry is next in line to embrace M&A in a big way. In April 2016, **Zweig Group** released a report revealing that 78 percent of architecture and interiors firms and 68 percent of all participating firms, stated that their strategic plans for the next 5 years include either a merger or an acquisition (Massie, 2015).

Academia versus Workplace

Does architecture school truly prepare one to work as an architect upon graduation?

This is the age-old question that many practitioners contemplate when hiring new graduates or young emerging professionals. Another important question is: Does the individual know enough to begin contributing immediately to the firm's revenue generation efforts? Moreover, considering that any individual with an NAAB (National Architectural Accrediting Board)-accredited degree can take the Architectural Registration Exam (ARE) immediately after graduation, does he or she really have enough knowledge to run a firm upon completion of the ARE?

In the next chapter, we will attempt to answer these questions while further exploring the transition from student to professional and how it is affecting the bottom line of firms.

In Summary

The architectural profession is predicted to do well over the next 5–6 years as it continues to recover from the last recession. Revenues will increase, the number of architects will grow, salaries will increase, and so on. This is all good news, but in this competitive industry, architects, and architecture firms in particular, need more than just favorable statistics to boost profits. Plus, given the cyclical nature of the nation's economy, it's not too far off to propose that another recession could be on the horizon in the near future.

How does a current firm owner steel himself or herself from the impact of that next looming downturn in the industry? The remaining chapters of this book will delve into why and how a new paradigm might just be what the industry needs to ensure that the architect doesn't become irrelevant or nonexistent.

2 Transitioning from Academia to Corporate Culture

Kathy Denise Dixon, FAIA, NOMA

My personal experience with academia, both as a student and as faculty, has been one of integration between practice and education. Many of the professors that I learned from at Howard University in the early 1990s were themselves both practitioners and academics. Even today where I am associate professor at University of the District of Columbia's Dept. of Architecture, all of the faculty members are licensed architects who both teach and practice.

Academia

For those of us who've chosen to do so, maintaining ties with academia seemed to be a logical way of keeping the insight gained by engaging in professional practice, and have this knowledge intertwine with the enthusiasm of up and coming youth who will one day enter the industry as professionals. Unfortunately however, I've learned that this mindset is indeed not typical of many architecture schools across the country. For most schools of architecture, the faculty is comprised largely of staff who are not present daily in the architectural practice environment, and thus cannot provide the level of real-world experience that is needed by today's emerging professionals.

This is exacerbated by the fact that these schools do not even attempt to teach topics which are associated with business operations like writing fee proposals, calculating overhead, and creating profit/loss statements, among others. True, an architect who has just joined the ranks of the industry professionals will not be expected to produce or interpret these reports. But at least knowing what the figures in a financial statement represent and how these impact the firm as a whole, is necessary for architecture practitioners if we are to look at the long-term.

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How can the next generation of architects be prepared to take their places in firm leadership if these topics are not taught across the board in all institutions? The idea of the architect as solely a visionary and artist is passé and must be replaced by a definition that increases the current low opinion of the architect and the value of his or her skills. It's high time architects boost their image and worth by adding a keen business sense to their eye for design and artistry.

During the recession, architecture was considered to be one of the top 10 worst professions to enter. I believe this impression is not only due to the effects of the economy, but also because the value of the profession has been whittled down by the encroachment of other specialists and related professions. When almost every other professional in the construction business can lay claim to being able to design—and most probably at lower costs at that, architects become easily replaceable.

Moreover, I surmise that this is also a result of the profession itself not recognizing the shifting tides as far as corporate trends, globalization, e-commerce, and commoditization in general is concerned. These are not topics that the profession naturally relates to, primarily because there has been no preparation for these issues in schools.

It is thus understandable that the recent recession increased discourse on the role of academia in the profession. Why would someone contemplate spending what is approximately 8 years to become a licensed architect when there are no jobs to obtain upon matriculation? See www.acsa-arch.org/resources/data-resources/how-long.

Peter Blanchard says it well in his paper, "What is Wrong with Architectural Education? Almost Everything," AR July 1989. "Ultimately," he wrote, "*the confusions and failings of architectural education simply mirror those in the profession at large.*"

Although Blanchard's piece was written a good 25 years ago, the points highlighted in it are still widely considered problems in academia and the industry. The profession is at a crossroads and has been for some time already. Architectural education could be the lynchpin to redefining the industry. But the industry must first admit there is a problem.

The Road to Being an Architect

Architecture students almost always follow the same path in their journeys to becoming a practicing architect. That path typically starts

with a Bachelor of Architecture (B. Arch.) degree, or a bachelor's degree in a related field (such as architectural history or construction management) or any other liberal arts degree to be followed by a Master of Architecture (M. Arch.) program. But getting the degrees is just the start.

As those of you reading this may very well know by now, having a degree in architecture does not automatically make you eligible for the licensure exam. You would still need to complete the Development Program (now called the Architectural Experience Program [AXP]) before proceeding with the Architectural Registration Examination (ARE) for professional accreditation.

Architectural Experience Program (AXP, Formerly Intern Development Program)

The transition from student to professional passes through a tricky realm of job experience documentation traditionally referred to as Intern Development Program or IDP. On June 29, 2016, it became known as the Architectural Experience Program (AXP). This period combined with the 5–6 years of academic instruction is one reason why it takes such a long time to become an architect in the United States. It can be a painstaking, confusing, and expensive time in the career of an emerging professional.

The National Council of Architectural Registration Boards (NCARB) is the body that presides over this program and to their credit, they have been making strides to change the paradigm and process.

In 2016, a new policy went into effect in hopes of streamlining the process. The former seventeen categories of experience areas will be reduced to six sections, although the total number of hours will remain the same at 3,740. A student can begin logging IDP credits after high school graduation. However, nearly 50 percent of their hours must be earned under the supervision of a licensed architect, and for many students, this won't likely happen until after graduation from college.

Architectural Registration Exam (ARE)

Strides are also taking place in the next phase of the process which is licensure. Years ago, an individual had to complete the IDP process which would take 3–5 years, and then they could sit for the ARE.

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Rather than being a single test, the ARE was originally divided into nine sections to assess the examinee in a myriad of subjects pertaining to the daily practice of architecture. This written examination was conducted over a grueling 4-day period which took place only once a year.

Over time, the number of exam sections has been reduced to seven (as of July 2008), and computerized examinations were held that could be taken practically any day of the year. Currently, the NCARB is launching a revised format that reduces the number of exam sections down again to six sections.

The average amount of time necessary to pass all seven sections of the ARE is 5.1 years (15-year average in 2014 stated per NCARB's 2015 NCARB by the Numbers Report). It is reasonable to assume that many individuals do not pursue licensure as a result of the lengthy period of time one must endure to become licensed.

In principle, earning architecture licensure is possible within 8 years. In actuality though, most are able to do it in eleven years on average. That's quite a long way, especially when you consider what awaits you once you are a licensed architect. Is it worth the time and effort you put in?

Practice

At this point in the average timeline, an individual would have been out of high school for more than a decade already. With a license in hand, the new architect should be well on his or her way to start earning significantly, right? Well, not exactly.

Even with the required accreditation, a newly-licensed architect still may not have adequate training and/or experience in the actual management of a business. Many are encouraged to open their own firms, but few know what that actually looks like.

Because of the lack of preparation, young architects often have many of these questions in mind:

- What type of corporate structure is the most beneficial?
- How much upfront capital is required?
- How much credit do I need from a banking institution?
- Do I need liability insurance and how do I obtain it?
- How do I get clients and projects?

Little to none of these concerns is addressed during college and the individuals are not likely to be involved in management-level conversations during any employment position during the AXP/IDP process or in their early career.

So when and where do people have the opportunity to learn how to be in the business of architecture? Presently, it's trial and error at best. Practicing architects take far too many years to master how to be in business because they are starting from scratch much too late in the game.

Imagine the effect on the industry if emerging professionals would start their careers equipped with the knowledge to be successful business people. Imagine how promising the industry would be if they are able to hit the ground running with knowledge and skills on firm management, finance, and business operations. Typically, it takes 15–20 years after freshman enrollment to learn and develop these skills.

Of course, a new architect does have the option to put off starting his or her own practice in favor of learning the ropes first in big and established firms. Should you decide to follow this route, take in as much knowledge as you can. Working on plans and designs is one thing, but learning business know-how is just as important. The earlier you can set off on your own or rise in the ranks, the brighter your financial prospects would be.

The Accrediting Boards

The National Architectural Accrediting Board (NAAB) is the entity which guides the curriculum structure and develops the appropriate standards in all schools of architecture in the United States. There are currently 153 approved architectural programs across 123 institutions in the country. The corresponding agency in the United Kingdom is the Royal Institute of British Architects (RIBA). Architecture schools outside of the United States or United Kingdom can also choose to be accredited from either of the two bodies.

According to Deborah Bentley, Assistant Professor of Architecture ADU, Abu Dhabi, UAE, in her paper RIBA Validation or NAAB Accreditation,

For a university not based in the UK or the US in a country that is not a member of the UIA [International Union of Architects], the board that

they choose to approve their architecture program will affect how they design the course structure and where their graduates can work in the world.

However, she wrote, “Graduating architects are not qualified with the skills and ability that the profession has been told by the boards will be in their education.”

These are indeed strong words, but the message contained is one that we have also been emphasizing early on in this chapter—that there is a significant disconnect between what is taught at academia and what the professional world requires. The question now becomes: how do we correct the situation to improve both academia and practice?

Calls for Change Within the Industry

Within the RIBA Education, design studio project is seen as the place where all the different subjects studied in architecture are combined and tested, and is designed to be “a rehearsal of the client-architect relationship,” (Brown, 2013). However it could be argued that by glorifying design and emphasizing output, as design-led RIBA is promoting—the “star” architect syndrome, education is not fully equipping future architects with the appropriate skills that they will need to have to practice.

Many distinguished, practicing architects seem to be in agreement with this sentiment, and have expressed their thoughts about this:

The Star system is basically defensive retreat into magic. Reality is too threatening and rethinking the teaching of architecture too much like hard work to be attractive to a weird mixture of the weary and the inexperienced who staff our academies.

(Frank Duffy, a former president of the RIBA, 1989)

The gulf between academia and the real world is widening daily.

(Deborah Bentley)

But quite apart from not preparing students for the very different future in which they will practise, schools are struggling to keep up with changes that are already transforming architecture.

(Peter Buchanan, 2012, September 28, “The Big Rethink Part 9: Rethinking Architectural Education”)

The need to examine the future of the profession and the state of architectural education in the UK was primarily driven by a perception that there was an increasing divergence between the nature of academic programs and the needs of architectural practice.

(Michael Keniger, 2016, October 21, “Architectural Education: Looking Back, Aside and Further Ahead”)

The total percentage of credit hours spent on professional studies is substantially less than either institute lists in their Educational Criteria.

(Deborah Bentley)

Many in academia believe it is not their duty to create graduates that are ready for the workforce. They believe that their sole purpose is to produce creative thinkers. Dreamers. Innovators. I partly applaud this effort. But what does this do for the profession? It places a heavy burden on the professionals to educate new graduates about the actual practice of architecture.

(A. Hawkins, 2011, August 26, “Top 4 Concerns with Current Architectural Education”)

The profession in the United States (Dickson, 2010) and the United Kingdom have repeatedly called for future architects to have more education in business practice, costing, and team management. Architects need to know about business models that will allow them to make sound financial decisions, as well as virtual models of their projects.

There was a strong feeling that architects should be learning management skills earlier in the education process.

(Building Futures, 2011)

Change in design education is inevitable, and the profession’s accreditation agencies need to prepare for change as well.

(T. Landmark, 2013)

Strides That Need to Be Made

Recent changes by NAAB and NCARB to make the progression from academia to licensed professional less painful and quicker have yielded positive results. This includes the streamlining of requirements for

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eligibility and timing to take the Architectural Registration Exam, as well as reducing the hours required to complete Intern Development Program credits. Even with all this preparation however, architecture firms are still often not satisfied with the education and training that interns are receiving in school.

It is only fair to require universities to teach students everything that will be needed of them in the field including knowledge of building codes and regulations, exposure to client interaction, training in business operations, and so on. Some academics believe it is too much to ask this of universities. But the profession also feels it is inappropriate to teach individuals when they are already on the job because this affects their productivity, and ultimately hurts the financial bottom line of the company.

Should the architectural practice be more flexible and contribute to the future of the profession by providing training to new architects at the expense of decreased revenues? Is it really necessary for the profession to do so? I am of the opinion that perhaps a new model is needed to bridge that transition.

Thus far, the only successful architectural model that overlaps classroom learning with on the job training is the Rural Studio created by Samuel Mockbee at Auburn University. If only there were more programs like this that embraced a more holistic approach of architectural education while incorporating the social responsibilities of the profession, the industry would be all the better for it.

Because clearly, an acceptable compromise between academia and actual practice must be reached—and soon.

3 What Makes a Successful Business?

Kathy Denise Dixon, FAIA, NOMA

Every individual or corporation that goes into business does so with hopes that the endeavor becomes a success. The reality however, is that not all businesses make it. And even for those that do well, the successes are to varying degrees—the majority of these manage to make modest profits, while only a few go on to really dominate their market. And so one cannot help but ask: How is it that some make good while others fail? Is there a way to ensure that you'll meet your objectives? Ultimately, what are the secrets to making a success of one's business?

I've seen my fair share of business ventures come and go and one thing I've realized is that there are really no secrets as there are proven practices. Whether you're the head of a large enterprise, running a retail store, or setting up your professional practice, good business can only happen when you and your team have invested enough time and effort into it.

But like I've said, there are several tried and tested practices that, while they do not guarantee success, would help set you on the path toward achieving your business and financial goals.

Six Business Practices That Pave the Way for Success

Have a Clear Vision

There's nowhere for your company to go if you only have the vaguest idea of where you want to be or what you want to achieve. It's easy to say that you are in business to earn profits; that's a given. But the how's and why's in getting to be where you want to be as an organization require some serious consideration.

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A simple, straightforward vision allows you to communicate to employees and customers why the company exists at all. Is it because you want to:

- *Create a better everyday life for the many people? (IKEA);*
- *Bring inspiration and innovation to every athlete in the world? (Nike); or*
- *Accelerate the world's transition to sustainable energy? (Tesla)*

Whatever your greater purpose is, and however long or short you want to express it, what's important is that you make your vision serve as a roadmap on where you see your business in the next 3, 5, or 10 years' time. It can be revised as the business culture changes and objectives are met, but as it is, the company vision can be used as a framework for the development of operational plans and strategic objectives, and a guide for informed decision making.

Provide Strong Leadership

Even when an organization has all the needed resources on hand—capital, product, and people—it still needs one element to make it all come together: Strong leadership. Leaders steer the company into the direction it should go, and the good ones are able to delegate effectively while encouraging collaboration.

Great leaders are both agile and resilient, able to adapt to the changing landscape while continuing to create strategies that are fully in line with the company's vision. They motivate employees into becoming the best versions of themselves, developing a culture of excellence and a customer-first mentality that resonates within the organization and on to the customers themselves.

As an original founder of your firm, it is possible that after several years of success, you might not be the person to lead the company into its next phase. Keep in mind that succession may be a necessary strategy to keep the organization growing when you have outgrown your own role. A company earning \$500,000 in annual revenue needs a different leader and leadership skills than one earning \$5,000,000 or \$50,000,000 in fees each year.

Put Together a Good Team

An effective leader can only be as good as the people behind him or her. Success can be more easily attainable if the people around you are also aiming toward that goal. The many years I've spent establishing my career have taught me that time is always of the essence. In business endeavors especially, one always needs to move fast because every opportunity lost is likely going to the competition instead.

So how do you keep yourself from making too many mistakes while moving fast? That's easy. Surround yourself with great people. Team members who are themselves diligent workers, positive thinkers, and driven by good work ethics can also give a boost to your own productivity. If you have reliable colleagues and employees in your team, you don't have to do all of the heavy lifting.

Keep Open Communication Lines

Maintaining open lines of communication in the workplace is a critical key to establishing trust. When your people are doing a good job, let them know. And when they're not, let them know too. Be specific in your praise or criticism so that they know exactly where you're coming from. This level of engagement motivates employees to improve their performance and creates a generally pleasant work atmosphere.

It also counts for a lot when team members know that their superiors are receptive to feedback themselves. By empowering your employees to speak up, you will have a better idea on what improvements can be made in the day to day operations. Effective communication also allows for them to express their ideas more openly. I've sometimes seen how a particular project can go from just good to great with some input from creative minds around.

Document Your Business Processes

No matter the size of the organization, making business process documentation a company-wide practice can bring about several benefits. For one, it erases any ambiguity in how key operational processes should be carried out. When the documentation clearly outlines not only the important steps but also the specific responsibilities of every employee involved in the process, there is little room for miscommunication.

Proper process documentation should also come in useful as a training manual in guiding new or substitute personnel when an employee fails to show up or leaves the organization altogether. It can also be used as a basis for streamlining processes, improving efficiency, and enhancing services, particularly in finding areas where value can be added to customers. Nobody wants to spend time writing about what they do (rather than just getting down and doing it), but establish this practice now and you'll thank me later.

Develop the Ability to Recognize Opportunities

While they say opportunity knocks but once, in business, there can be several of these instances. However, many people tend to ignore these chances simply because they can't recognize the potential that such opportunities bring. Whether it's expanding your business product line or services, engaging in a merger or acquisition, adding new locations, investing in technology and people, or any other decision that requires a good deal of time, effort, and resources, you should look into any such "opportunities" with serious consideration.

That said, there's really no foolproof formula when it comes to spotting great business prospects. Even those who've perfected the art of investing have missed out on amazing opportunities from time to time. But the better you know your product and market, and the more you get involved in your business operations, the better you would be able to evaluate whether an opportunity that comes along would be a boon or bane to your current situation.

Essential Tips for a Startup Firm

It's an even more of an uphill climb to success if you are just starting out. The saying that the first time is always the hardest rings so true when you apply it in the entrepreneurial setting. But being as prepared as you can be would help to take some of the sting out of those start-up pains. That said, here are a few items that should prove to be useful to new entrepreneurs in general, and in particular, those setting up their very own architecture firm for the first time.

- **You can bootstrap your way to success.** When you already have your great idea/product/skill and the vision to go with it, all the elements would seem to be in place for making a go of it in

business. Well, except for the not-so-small detail that you would need some financial resources to get started. The good news is, not all start-ups need to turn to venture capitalists or bank loans for funding.

Use whatever savings you have (and maybe a credit card or two) to get your business off the ground. I've heard of an established architectural practice that just started with each of the three partners putting in \$500, working from a basement that served as their first office. Start with the bare equipment and personnel necessary, keep expenses to a minimum, and plow whatever income you earn back to the business.

- **Remember that cash is king.** Knowing how much money is going out versus how much is actually coming in doesn't require any specialized accounting knowledge. But it's one thing that you have to understand to make sure that the business remains afloat. You can't expect profits to come rolling in during your first few months of operations so it falls on you to make sure that bills and employees are paid on time. But you can't keep on digging into your own pocket every time a due date comes and there are not enough funds in the bank. Having a good understanding of how your business model works would be a great help in keeping your cash flow positive.
- **Hire with prudence; fire when you need to.** This is closely tied with the third item in the previous section on surrounding yourself with a good team. But while established companies have more leeway in being able to hire great people, new businesses don't have the luxury of time and resources to do a trial and error with their people. The best way to do it? Take your time when hiring.

Yes, you need to set up your team as soon as possible but bear in mind that more important than just finding someone to fill up that spot is finding the right person for you and your firm. Don't just look at the qualifications on paper but try to see if that person could share your vision for the company and work just as hard to achieve that. And if a hiring decision turns out to be a fail, don't hesitate to let go. The sooner both of you move on to more suitable endeavors and people, the better.

- **Take kindly to advice.** In fact, actively seek it if needed. As an owner and/or principal, you ultimately have to take sole responsibility (or in combination with your partners) for your

business decisions. But it doesn't mean that you can't learn from those who've gone the same route before. You've got nothing to lose if you ask for inputs from fellow entrepreneurs, your former boss, colleagues in the industry, marketing people, and others. Some of the best pieces of advice I gathered when I decided to strike out on my own were from my industry mentors. If you start your firm with partners, communicate with them as often as you can. Two heads (or more) are always better than one.

- **Keep your passion alive.** As I mentioned in the first few pages of this book, I fell in love with architecture early on in life, and that's the reason why I chose this path. But in the early days when payment due dates were looming and projects scarce, I would wonder if things would have been a lot easier had I chosen a career that provided more financial stability.

It's easy to get lost in the daily grind of running a business. When moments like this get to you, dial up your enthusiasm by reminding yourself of why you're doing this in the first place. Passion alone does not create success but it does help you stay on track even when the everyday challenges weaken your resolve.

A Quick Guide to Running an Architecture Firm

When you consider the top architectural practices in the country—think Gensler, HOK, SOM, Perkins+Will—it's easy to get daunted by the amazing successes of these firms and the people behind them. But the fact is, these companies didn't go from zero to sixty overnight. It should give you some comfort to know that many of these now-established firms started off in the exact same spot where you are now.

Years or perhaps even decades ago, the founders too faced the typical challenges of setting up a new architectural practice with only a little more than design skill, technical talent, and sheer tenacity to start with. And if they were able to make it, there's no reason why you can't as well. But before you go around giving out your newly-minted business cards, it's important to get yourself in the right mindset and draw up a (figurative) blueprint of your business.

Setting Goals

There is so much to think about as soon as you've fully made up your mind to start an architectural practice on your own. If you're doing it

with partners, then you have a lot of meetings ahead of you. Among the things that you need to address right away is establishing your identity as a firm. We've briefly discussed the importance of having a clear vision in the first part of this chapter and putting it in the perspective of starting a design firm, it means determining your short- and longer-term goals. Think of answers to questions like:

- How small you would like to start and how large you would like to grow in the future?
- What type of work and projects would you like to take on?
- What type of clients would you be most comfortable working with?
- How much revenue are you setting your sights on?
- How would you like to be known as a firm?

Goals could change as the firm grows or as more partners come in (or leave). But with the objectives you've identified early on, you can now make the next concrete steps to setting up your architectural practice.

Getting Started

One of the most crucial matters to consider when establishing a firm is how much money you would need to get started. Business expenses tend to run high especially when you're in the start-up phase and with a potential client *list* that's probably got only two names for now, you'd need more to survive the first few months. So sure, it's definitely easier to have ample funds when starting your firm. Would the few thousands saved from your previous day job suffice? Maybe a little more?

Truth is, your start-up costs would depend a lot on what your needs are initially, what you are willing to do without for the moment, and what tasks you can do yourself. For instance, can you make do with a tiny office in a less-than-ideal location in the city, or would you rather invest in a prime downtown space with ample parking area? Are you and your partners doing all the work for now, or do you intend to employ a staff or two? Can you do your own photography?

How you intend to proceed would also answer the question of how much financial resources you should prepare. For some, establishing an upscale, polished image for their firm at the outset would work well with the type of clientele that they are trying to attract. And then again,

many design companies have succeeded by starting small, going the do-it-yourself route, and generally, keeping a tight lid on spending for the 1st year.

Bootstrapping your first firm may be hard work, but for as long as you can grow it steadily and eventually turn up a profit, you'll have an edge over others who will still have loans to pay off or shareholders to answer to. On the other hand, securing external funding through a business loan or angel investors allows you to accelerate the firm's growth. You won't have to worry about where your next payroll funding or rental payment will come from and instead, you can focus on seeking out project opportunities and expanding your client base. Evaluate what option is best for you while also considering your financial capability.

Attracting and Retaining Talent

When you've grown your architecture firm enough to merit hiring more people, bear in mind that a business can only become as good as its best employees. True, you and your co-founders could have the combined talent that could bring more customers through your doors, but eventually you would have to delegate some of the work to the other people in your team. That's why who you welcome into your firm is of utmost significance. It's not just about the skills that they offer, but also their passion for the work they do, and their overall fit into your company's vision.

Now it's one thing to get the right people into your firm, and another to retain them. Think about what elements could make them stay. Is it a great company culture? The type of work that they are assigned to? Perhaps a sense of satisfaction that can only come from being contributory to a thriving organization? I'd say it would have to be a balanced combination of all these, plus more. After all, a great culture can only stem from putting some trust into your employees. In an architecture firm, this means having employees contribute to design process too, allowing them some autonomy and a chance to tap into their own creativity. I know somebody's still got to do the grunt work but if they can also be part of some interesting projects from time to time, they will be able to view these as valuable learning opportunities.

This isn't to say that given all these conditions, talented people would not want to strike out on their own later on. That could still happen.

But the decision won't be that easy if you've given them enough incentive to stay. We'll discuss more about getting and retaining the right team in [Chapter 9](#) of this book.

Using Technology

It's easy to forget that all drawings were once painstakingly done by hand using the architect's basic devices: Tracing paper, pencil, eraser, T-square, and so on. Today however, technology has permeated almost every aspect of our lives, and software applications have drastically reshaped the nature of work environments, regardless of what industry you belong to.

In our field, software programs and apps have become ubiquitous over the last decade, speeding up so many aspects of the design and construction process, and allowing small firms to accomplish what only large teams could do before. The rise of technological tools is also enabling architects to present buildings that are more interesting, and spaces that are better optimized. It has given smaller firms the capacity to produce amazing 3D renderings and accurate visualizations that make for impressive client presentations.

While not all small-business architectural practices have fully embraced the various technology tools in the industry, those who have done so are reaping the benefits. Such advantages are not only limited to how we are able to virtually construct buildings even before the first brick is laid (although that's definitely a big part of it), but also how firms are able to keep things in the office organized—contacts, projects, billings, financial records, and much more.

In Summary

In sharing a few of the useful business practices that have helped me along the way, I hope you will also be able to gain some valuable insights from them. At the end of the day however, there are no hard and fast rules when it comes to running your business or architecture firm. As the principal architect, business owner, or organizational leader, you are in the position to determine what course of action would best lead to your success.



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4 Leadership Matters: Organizational Structure in the Firm

Karl L. Moody

Defining leadership roles in any organization is of primary importance because it gives employees a marked sense of direction, knowing who to look up to and who is responsible for what. Now if you're starting off as a one-man architectural band, then obviously, you're your own boss and employee. But that's at the extreme end of the spectrum, and in most cases, small architecture firms could be anywhere from a four- to ten-member team.

The bigger the organization expands however, the more well-defined the job descriptions should be. As a leader, being able to grow the firm is not only about landing more projects but also being able to leverage your talent while delegating tasks and managing the team. Assigning responsibility is easier for a relatively flat organization, but the firm's efficiency in managing projects would also improve with the right balance of principals, seniors, and juniors.

Leadership Structures in a Firm

In an architecture firm, certain job titles could carry different meanings from one company to another, and the same job description could be called a different title in another design company. Many large firms follow two parallel leadership structures: *Task-based* and *Title-based*.

Task-based titles are given in relation to a person's specific duties with regards to the projects, for instance: Project manager, job captain, project/senior/junior architect, project/senior/junior designer, CAD operator, intern, draftsman, and so on.

Title-based titles, on the other hand, are given based on a person's contribution to the firm and should serve as a starting point from where a team member can be promoted (hence, they can also be called promotional titles). These include titles such as principal, associate principal, partner, associate partner, senior associate, and so on.

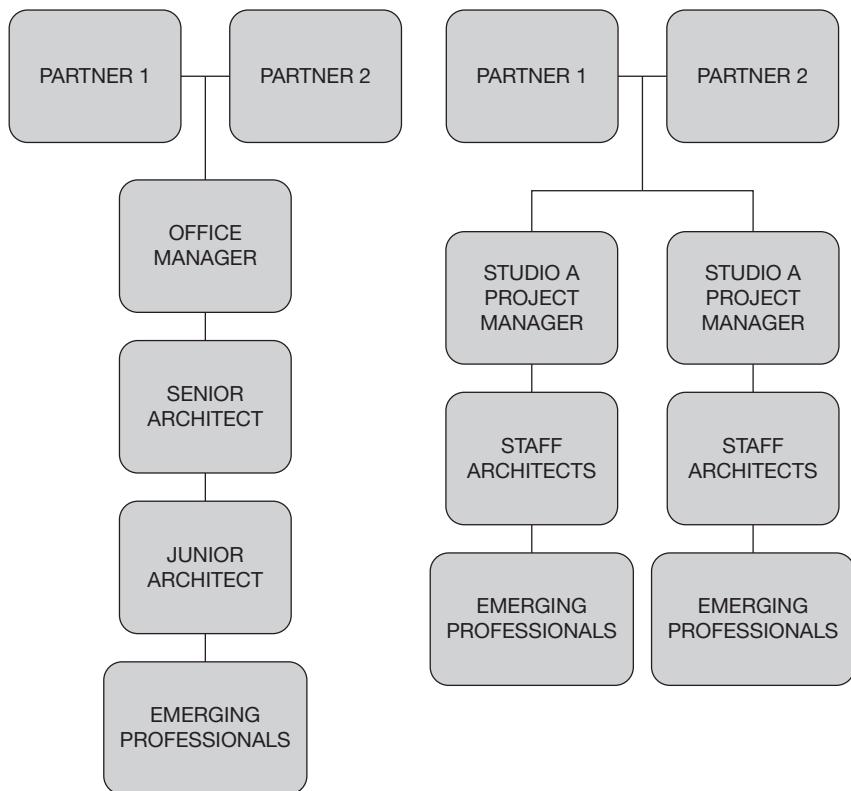


Figure 4.1 Sample Organizational Structure of an Architecture Firm I.

These designations could also be associated with their role in running the firm. For instance, a senior principal who is likely the firm's founder or majority shareholder could also be given the title CEO or President, while a junior principal could also be the Chief Financial Officer.

Thinking Big: The Corporate Structure

While business opportunities available today have never been greater, so have the challenges of running a business successfully and profitably. As I've mentioned above, while many architecture firms can be classified as small businesses, there are also those that grow to become midsize firms (about 20–99 employees) and even go on to employ hundreds of people. Becoming a large enterprise, to many, may be the very definition of success, but the road to getting there is not easy.

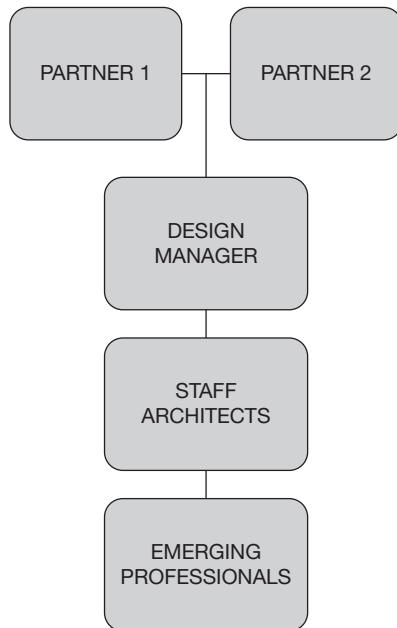


Figure 4.2 Sample Organizational Structure of an Architecture Firm 2.

Every move should be planned with careful consideration. But companies, despite their best efforts, sometimes end up making the wrong decisions.

Not having a Board of Directors (BOD) is one such mistake. And just like any other company, architecture firms should also have an engaged BOD which seeks to serve the company's best interest and address the organization's best practices.

Why Every Company Needs a Board of Directors

Many small and large organizations are led by headstrong individuals who know exactly what they want to do. While this type of decisive leadership is good, the same strength and tireless drive of these individuals can sometimes negatively impact their judgment in making sound business decisions. CEOs who do not seek support often have a deep-seated fear of losing control. This is where having a BOD could be very beneficial, and where not having one can be clearly seen as an error in judgment (Patel, 2015).

In his article “5 Reasons Why Every Company needs a Board of Directors,” Board Titans CEO Yazad Patel names 3 of the most common fears there are that hinder the formation of a BOD. These are:

- dilution of authority (for the CEO/founder/business owner)
- interference (in business decision-making)
- time-consuming and expensive.

These fears though, are mostly unfounded and the vast majority of organizations who properly choose their board members achieve greater performance.

Board of Directors: What Is It and Why Is It Important?

According to Anderson and Sawyer of Transaction Advisors,

A board of directors is a body of elected or appointed members who jointly oversee the activities of a company or organization, which can include a non-profit organization or a government agency or corporation. A board of directors' activities are determined by the powers, duties, and responsibilities delegated to it or conferred on it by an authority outside itself. These matters are typically detailed in the organization's constitution and bylaws. These documents commonly also specify the number of members of the board, how they are to be chosen, and how often they are to meet. However, the constitution and bylaws rarely address a board's powers when faced with a corporate turnaround, restructuring, or emergencies, where board members need to act as agents of change in addition to their traditional fiduciary responsibilities.

(Anderson & Sawyer, 2014)

The above sounds pretty simple. As a matter of fact, every business owner or C-Suite executive has either said or heard another executive saying, “we already do all the above; it’s no big deal; we’ve got it all covered”. I am not implying that these executives do not understand what they are talking about; they truly believe and are convinced of these views. Still, the formation and presence of a functioning Board can never be overemphasized. This is particularly true for architecture firms.

Why is that?

For one, architects are not trained to address the many facets of corporate and business governance. In fact, if an architecture firm were to be solely governed by architects alone, the likelihood of business stability and corporate growth could be dismal. While we've continually harped on the need for architects to learn business skills, the truth remains that their area of expertise lies in design. In the business aspect of things, any outside assistance would be most welcome.

Managing change is the greatest challenge that any organization will face. A BOD is designed to help senior leadership navigate the daily operational grind and focus strategically on the leader's core strengths and abilities.

The Need for a Diverse Board

Change is a constant in any organization and acting on such changes is one of the many responsibilities of the BOD. This often requires diverse thinking and skills, and can be most effectively achieved by having people from various backgrounds.

BOD members who bring expertise from strategy, finance, legal, marketing, ICT, and specialized industry- or product-related skills are almost always sought after. Other directors can bring along business contacts and networks, and this is especially relevant for start-ups and high-growth companies. Boards also stand to gain when they have gender, demographic, and cultural diversity.

In any organization, the BOD is largely responsible for:

Corporate Governance

Investopedia defines Corporate Governance as:

The system of rules, practices and processes by which a company is directed and controlled. Corporate governance essentially involves balancing the interests of a company's many stakeholders, such as shareholders, management, customers, suppliers, financiers, government and the community. Since corporate governance also provides the framework for attaining a company's objectives, it encompasses practically every sphere of management, from action plans and internal controls to performance measurement and corporate disclosure.

(Investopedia, n.d.)

Corporate Governance also

provides a framework for balancing the expectations and interests of the many stakeholders in your company—which include your Shareholders, Board of Directors, Management, Employees, Customers, Suppliers, Financial Institutions, Government and the Community.

(BoardTitans, n.d.)

Independence and Accountability

Having a BOD oversee the company's operations ensures independence and accountability among the corporate leaders. History has shown time and again how large organizations have fallen into disrepute and financial trouble for lack of these. Investopedia's definition of Corporate Governance further explains this:

Bad corporate governance can cast doubt on a company's reliability, integrity or obligation to shareholders and staff. Tolerance or support of illegal activities can create scandals like the one that rocked Volkswagen AG in 2015. Companies that do not cooperate sufficiently with auditors or do not select auditors with the appropriate scale can publish spurious or noncompliant financial results. Bad executive compensation packages fail to create optimal incentive for corporate officers. Poorly structured boards make it too difficult for shareholders to oust ineffective incumbents. Corporate governance became a pressing issue following the 2002 introduction of the Sarbanes-Oxley Act in the United States, which was ushered in to restore public confidence in companies and markets after accounting fraud bankrupted high-profile companies such as Enron and WorldCom.

(Investopedia, n.d.)

The Architectural Board of Directors (ABOD), however, is a special type of board. Unlike other corporate boards, architecture BOD's members are often called to render the services they are recommending. BOD members often lack the independence as you would typically find in traditional organizations. Therefore, it is necessary that architectural organizations put in place sound check and balance practices to prevent abuse and/or fraud.

The architectural BOD's has a dual mandate of advisory and oversight. The BOD is governed by their fiduciary/legal responsibilities.

They are collectively, or in rare cases, solely held accountable for the company's performance, compliance, and risk mitigation strategies.

Strategic Direction

Direction is fundamentally the decision of the key leaders or leader of an organization. However, direction making should be a collaborative endeavor, where leaders examine the opinions of their BOD and review human resources to determine future direction.

Architecture firms are not typically large corporation with numerous departments, divisions and cost centers. However, large corporations are made up of independent parts which function as a whole. The ABOD should not be made of "Yes Men"; it must be engaged in all aspects of the company. This proactive engagement is essential for mapping out strategic goals, while monitoring effective implementation of policies and procedures.

Credibility and Legitimacy

Your ABOD is primarily formed to create strong market credibility and corporate legitimacy. The necessity of creating such a vital component within the architecture firm stems from the primary need to acquire commission (work). The ABOD is fundamentally responsible for helping develop opportunities for income, human resources, mergers and acquisitions, and all other growth opportunities the firm can capitalize on. Furthermore, members of your ABOD must be able to lend their credit, and other assets to the organization to achieve its objectives.

An effective ABOD instills integrity and offers balanced, objective advice which helps in mitigating risk. Financial institutions, investors, and partners view ABODs favorably, which effectively lowers the cost of capital financing and expands growth opportunities for the organization. Customers, workers, and vendors will view your ABOD as a safe-guard of their interests. The ABODs are the best source of assurance for people who are interested in working, investing, and participating in projects or joint ventures that their interests are protected.

A company's ABOD also increases the firm's credibility when bidding on contracts. Further, the board can be helpful for owners or investors who are planning an exit by means of a succession plan, and

when the company explores seeking an Initial Public Offering (IPO), or furthering the scale and growth of the business.

What Kind of ABOD Does Your Company Need?

There are basically two models of ABODs and your choice should be driven by selecting the type that best suits your business requirements.

An **Advisory ABOD** is a less formal relationship of people. The Board individuals don't have any guardian or lawful duty toward its proprietors, nor do they require consistent executive gatherings. What each of the board members primarily has is an honest-to-goodness enthusiasm for the accomplishment of the organization and its owner(s). An Advisory Board essentially exhorts and gives input; however, it is never required in the basic leadership role. Individuals for the most part volunteer their time as coaches, and in some instances, may receive a token honorarium. This structure is most appropriate for early-stage enterprises and newly-formed companies.

A fully **Mandated ABOD** has a definitive power and holds trustee/lawful duties in the interest of the organization. The board is completely answerable to its proprietors and shareholders. It conducts regular meetings and is considered as the organization's basic leadership form. ABOD members of consolidated organizations have a stringent consistency structure set up by overseeing bodies. This type of ABOD is therefore most appropriate for organizations that need trusted counsels who will have a big role in decision making and can be held accountable for these.

The vast majority of architecture firms don't have a Board in place. However, implementing both **Advisory ABOD** and the fully **Mandated ABOD** models of ABODs in your architecture firm will reap overwhelming results in growth, management, and financial stability. The two Boards working in tandem will give the architect practitioners the flexibility needed to provide quality design services, while securing a positive growth outlook for the firm.

Summarizing

It is to your organization's advantage to seek out active Board Members. Because of the vital role that the ABOD plays, it is critical that you invest a part of your assets into having a BOD, and to engage in this exceptionally underutilized business instrument. We have

addressed numerous points of interest where the Board can help in the growth and stability of the company. There is however, one instance wherein your organization could end up squandering its assets on a Board structure—and that is, if you place only your friends and people who are most similar to you on your Board.

A strong and effective BOD is a precious resource, one that is key to achieving the successes envisioned by investors and business owners.

The True Value of Diversifying Your Leadership Team

Architecture Firms Can't Grow Without Diversified Leadership

In today's increasingly competitive architectural services, marketing the need to be noticed and to achieve more with less is the primary focus of the majority of A&E firms. Architectural practitioners must study the challenges of their market and constantly search for ways to become more innovative and create more efficient business processes. Many are saying that one can't design his or her way to prosperity and there is a lot of truth there.

One very important tool available to architects and managers is team development and strategic teaming. By understanding and implementing teams in the most effective way possible to rapid innovation, companies will improve their chances of success. A well-diversified team vastly improves the chances of developing solutions for growth which does not solely echo leadership thoughts. It can also create additional value to a company by combining individuals' strengths and taking advantage of synergies that may exist, thereby making the whole greater than the sum of its parts.

According to Yair Holtzman of Worldwide Trade Partner:

To succeed, the leadership team should have all the talent, knowledge, organizational clout, experience, and technical know-how needed to get the job done. An effective team should be composed of people who collectively bring all critical competencies to the effort. Any weak or missing competencies jeopardize the team goal(s). In these cases, the leadership teams must strengthen weaknesses or recruit for the missing competencies, something that successful teams learn to do as they move forward.

(Holtzman & Anderberg, 2011)

Architects tend to believe that an architecture firm should be solely run by architects. This belief system is the “Achilles’ heel” of many architecture firms. This belief of homogeneous leadership is developed from the early days of architectural training and then reinforced during the apprenticeship period after leaving school. Architectural training is not inclusive of other disciplines necessary to build a business enterprise. Architects who wish to run their own business must step out of their ill-conceived nature to be totalitarian in their business practices and accept their new role as team participant.

One of the essential components of any team is to communicate uniformly because such communication creates a sense of common purpose. Johan Anderberg of the Medical Arts Office Services, Inc. states:

One way to test for clarity of vision and common goal of each staff/team member is to try the “elevator speech” test. Take each team member aside and ask the following question: if you were traveling by elevator between floors with the client’s CEO and he asked what your team was working on or who do you work for, what would you say? Everyone on an engagement team (the firm) should be able to clearly articulate and explain who represents leadership in the firm, what does the firm do, where does the firm provide service, and why the firm does what it does (firm goals) to the CEO or any intelligent stranger for that matter.

(Holtzman & Anderberg, 2011)

Building a team that will represent the firm well is a strategy that must be implemented like any other planning effort:

Design Your Team for Diversity

The greatest advantage of today’s workforce is the myriad of backgrounds and cultural perspectives working together to create better solutions. Companies that want to ensure a winning advantage will embrace diversity in its employee population. Moreover the company should look like its customers and clients to impart a feeling of fairness and equitableness in its business dealings.

Your firm will not come to look like an ethnically equitable institution all on its own, especially in an industry that does not have a history of being multi-cultural or diverse. A definitive effort will be required on the part of you and firm leadership to insure that the managers and

staff have an ethnic and gender mix suitable to represent the society that you work in.

Quotas and mandates are never well received by existing staff and leadership, but a vision of an environment that is more welcoming is something that everyone can sign on to support. Obviously the best candidates are the ones that should be considered and hired, but what can be done to make sure that the best candidates are as diverse as possible? The company might consider creating relationships with university level architecture programs or participating in K-12 academic architecture camps to help nurture a pipeline of diverse emerging professionals who will eventually join the firm. Working in the community, especially in diverse neighborhoods will also reflect well on the organization.

Your entire team should take to heart the need to have a multitude of perspectives during the thought process in order to development the most innovative and creative design solutions. It's a "two heads are better than one" philosophy. Two or more people coming at a problem with very different backgrounds or viewpoints will ultimately make for a better solution. Of course, everyone's ideas must be equally considered in the final analysis. Nothing could be worse than a "group think" mentality in the architectural profession where high levels of creativity are crucial. If your firm is constantly churning out the same ideas garnered from the same small group of heterogeneous thinkers, you will not stay at the top of the industry for very long.

This strategy can be used to encourage collaboration internally between studios or departments/divisions, as well as externally with other firms. Each group has something that they specialize in, but would gain by interacting with another successful team that approaches the solution from another angle. Always design your team so it can take advantage of the multi-cultural and multi-disciplinary opportunities available.

True Architects Should Not Run Their Business

Should You Be an Architect/Accountant?

Can an architect be a good accountant? An architect-slash-accountant—there may be such a person, but in all likelihood there's probably none.

Architects are often overwhelmed with their own professional responsibilities when managing their firm from a design perspective.

So while having the business acumen of an accountant would be great for running the firm, trying to introduce a new discipline into an already complex business model is a recipe for failure. So how does an architect practice get sound financial advice while the architect is building and running the firm?

One way to achieve strong fiduciary controls in your architectural organization is to place an accountant on your BOD, and to offer compensation incentives for cutting or eliminating the firm's tax liabilities. Be advised though, accountants are not always the best business growth advisers. Accountants tend to stay in their lane giving you fairly conservative business and money management strategies.

Still, that shouldn't stop you from exploring new opportunities. The best way is always to seek a compromise when chances for growth are available. Grab opportunities without compromising the firm's financial stability. You can do your job while the organization's accountant does his/hers as well.

But If You Want to Try Your Hand at Being an Architect/Accountant . . .

Let me make this clear again: Being a principal architect/project manager while being your own finance officer is tough work. And not many succeed in juggling all these roles. However, if you're still small enough (read: Few personnel, no BOD) to not warrant an accountant on your team, then having some proficiency in using accounting software won't hurt. Sure, you will still need the services and advice of an accountant for payroll, tax returns, and other key financial decisions. But hiring one only as needed, or on a retainer basis, could perhaps work better for you at this stage.

To that end, [Chapter 8](#) of this book—The Basics of Financial Management—will be able to help you navigate the murky waters of monitoring and managing your firm's finances.

In Summary

The concept of leadership and organizational structure take on many forms in an architecture firm. Large firms have the advantage of stable leadership at the senior level, with several layers of next generation partners that are ready to take on bigger roles in the future.

This corporate structure is generally guided by a BOD that promotes accountability at all levels. Small firm leaders, on the other hand, are taking on varied roles in the practice—designer, project manager, and even finance officer—as they constantly explore ways of how their firms can be innovative, agile, and resilient enough to stay in business.



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5 Profit Centers

Timothy A. Kephart

Many firms have found success via the creation of “profit centers.” According to Investopedia, a profit center is “*is a branch or division of a company that is accounted for on a standalone basis for the purposes of profit calculation.*” For instance, a popular restaurant chain would consider every individual restaurant as a profit center, and a large company could designate its manufacturing, sales, and service divisions as separate profit centers.

In architecture, profit centers can be based on several characteristics or strategies such as building types, related disciplines, or products. These centers or markets are developed around specialization or physical locations which the firm promotes, markets, and supports vigorously, and in return, the profit center becomes a recognized source of revenue for the firm. Quite often, the firm’s market share is based in a particular specialization whether it’s design of K-12 schools or providing architectural services to the federal government.

Profit Centers in the Architecture/Design Industry

The use of profit centers or markets is typical for medium size to large firms in the industry. For example, Gensler, a 5,000-employee design firm has domestic and international markets which promote specialization in architectural design, brand consulting, interior design, and urban planning. Moreover, the company delivers sports and recreation projects, commercial and retail buildings, aviation and transportation projects, and civic and government projects. According to IBISWorld’s June 2016 “Architects in the US” Report, Gensler generated a revenue of \$756 million in 2016. The greater the variety of markets a company is involved with, the greater the revenue it will likely be able to obtain. In a down economy, having several profit

centers can help to keep the company afloat as some profit centers will remain steadier than others even in a poor economy.

The same IBISWorld report states that Perkins & Will, established in 1935, earns most of its \$331 million revenue from two sectors—education and healthcare. The company's early commitment to green technology and sustainability initiatives prior to its competitors helped Perkins & Will to carve out a considerable market share in that industry. Skidmore, Owings & Merrill has also been successful at establishing profit centers in disciplines from urban design to interior planning, including corporate design, healthcare, education, recreational, and transportation markets.

By traditional architecture standards, a profit center is organized by office location, which, under a multi-office firm may not always be seen as useful. Clearly delineating between corporate costs and overhead and the expenses of the local office can be problematic and cause anxiety between offices. How does the firm equitably differentiate between high operating costs in some metropolitan areas and low costs in others? The Architect's Handbook of Professional Practice (AIA 14th Edition) states that "*The perception of almost every branch office of firms that use a profit center model is that their corporate allocation is too high.*" The purpose of this chapter is to encourage you to view profit centers less by location and more as a differentiated and segregated product, process, or service.

But before we go into how architecture firms can increase revenue through nonconventional profit centers, let's first take a look at how architects traditionally make money.

The Traditional Model

Most architecture firms essentially sell their time in exchange for revenue. In this model, profitability is directly related to how many staff members are billable at any given time. The more qualified staff you have who are assigned to client projects, the more you can bill and the greater your revenue. Under this setup, profitability is limited by the number of qualified staff you employ, the number of billable clients projects you win, and the number of hours in the day, week, month, and so on.

Unfortunately, we all know that time does not scale, and when the architectural business is linked to time, it will always reach a maximum threshold. In addition, when an architect steps away from the business

at the end of the day or week, or takes a vacation, or is ill, all revenue generation stops. In spite of this, for years firms have sought to add and hold onto qualified staff to have more capabilities and bill more hours.

This model would seem to work when business is steadily growing, the economy is good, and work is consistent. Unfortunately, architecture firms are subjected to the realities of fluctuating business cycles, rising interest rates, and economic downturns. Even when projects stop, payroll and business overhead keep running. Firms typically have no inventory, few fixed assets, and nearly all working capital is represented in the firm's staff.

Since firms do not build up inventory and the perceived value in the marketplace is under constant duress, the ability to build up cash reserves is limited. Furthermore, during downturns, firms desperately hold onto qualified staff for when the market comes back, eating away at any cash reserves, and compromising profitability of future projects. The firm's revenue depends on active, one-on-one, high-touch, cost-based model measured by billable hours. This traditional business model of architecture is a losing formula with high costs, high risks, and low rewards.

Boosting Revenue by Increasing Value Proposition

The architectural profession seems to perpetually analyze its basic value proposition questioning, "Why do designers get hired?", "How should we get paid?", "Can we raise our hourly fees?", "How can we make clients and the public understand our value?" etc. These questions have not led the profession out this conundrum. In comparison, the legal profession does not seem to struggle with these issues. The public accepts their value proposition, and typically pays hourly rates of \$300, \$400 and even \$700 per hour for legal services. These hourly rates are unheard for the majority of architects. To bill these rates, the legal profession has done a good job of making the business case to justify the high cost for their services.

The key to these high rates is the clear connection between services provided and benefits and financial value received. Tax attorneys save specific, calculable dollars that far exceed the fees they charge. A tax attorney who reduces a tax liability from \$3 million down to \$2 million saves his or her client \$1 million and therefore, the \$200,000 fee for

services rendered will be seen as a bargain. Litigators work to recover millions of dollars in damages and are highly compensated to do so. Patent attorneys protect millions and even billions of dollars and can easily justify \$400–\$700 per hour billings. I could go on with more examples but I believe the point has been made. Clients are inclined to pay high professional fees if they save money that is multiple times more than what they spend for that professional's services.

That's what architects should strive for as well. If a firm is seeking to increase profitability through higher fees and win additional work, it needs to differentiate itself from competitors and demonstrate financial value to its clients. Each architectural proposal should present value metrics based on the following areas:

Speed and Time Savings

Architects with expertise in navigating the permit process provide real financial value to their clients. Cutting the permitting process by 3–6 months or decreasing the overall design build timeline benefits the client financially in a number of ways. This can reduce construction cost increases due to inflation and material price fluctuations and reduce interest costs, carrying costs, and opportunity costs. In addition, reducing the permit process by 3–6 months enables the client/building owner to generate rental revenue sooner.

Calculating an additional 3–6 months of rental income is a simple process and should be part of every architectural proposal. For instance, an additional 3 months of rental income for a 50,000 square foot building at market rental rate of \$24 per square foot per year yields the client/owner \$300,000 in additional rental income. Shortening the permit process by 6 months net the client owner \$600,000 in additional rental income. This is real financial value that the architect offers and should be rewarded for. Every proposal should include these metrics to demonstrate how your firm differentiates itself, offers value to its client, and understands the financial perspective and profit motive of the client.

Energy Consumption

Architects need to recognize and present to clients that the value they bring extends beyond the design and construction phase and is

realized over the life of a building—20 years or more. A critical cost of operating a building lies in its energy consumption. A&E professionals need to analyze and present how their design will cut future costs of ownership.

Energy consumption is a critical cost factor for clients/building owners. When architects design buildings that utilize less energy and fewer utilities, and cost less to operate, they increase the building value and allow the owners more net profit. Architects' proposals must present the financial savings their smart design will yield building owners. If the building costs \$100,000 less per year to heat and cool annually (\$1 million over 10 years), the architect, whose design achieved this savings, is justified to receive a portion of the savings through an increase in design fees.

Presenting the savings to the client is critical to winning more projects, justifying higher fee rates, and increasing firm profitability. Every client should be presented with the metric of savings.

Maintenance

Architects whose designs incorporate durable and low maintenance materials can save clients hundreds of thousands or millions of dollars. If a typical maintenance budget is \$8 per square foot per year, cutting maintenance costs by 10 percent through design for a 100,000 square foot building yields \$1.6 million in maintenance cost savings over the 20-year life of the building. This savings is likely at least double the architect's original design fee and therefore justifies higher design fees for him or her.

Project Cost Management

For architects who utilize Building Information Management (BIM) technology, a significant portion of coordination errors and change orders can be minimized or eliminated, giving the client some significant cost savings. In addition, architects who use BIM provide the client the benefits and cost savings of materials tracking, energy modeling, and construction management and logistics.

Architects need to employ their creativity to design and build metrics into their proposals to clearly demonstrate the financial value they offer clients and cost-justify their fees. Proudly and confidently

present the savings your design offers and welcome the client to review, debate, and analyze your savings projections and metrics. From the client or building owner's perspective, this elevates you and your firm above 95 percent of the competition.

Boosting Revenue through Unconventional Profit Centers

Offering greater financial value to the client to increase your fees is one thing, but finding other ways to generate new revenue for your architecture firm is another.

Architects are highly educated, knowledgeable professionals with a bevy of information and expertise that is extremely valuable. Unfortunately, the profession has focused so specifically on creating and delivering design plans that the public and architects themselves do not recognize the additional value the profession offers. The traditional service model needs to be supplemented with products and other services to diversify earnings, and more clearly demonstrate and be rewarded for the expertise architects hold.

Revenue (in current dollars) for US architectural services is forecast to grow at an annual compounded rate of 5 percent between 2016 and 2020. (*Data Published: First Search Industry Profile, February 2016*). It is also said that there are no “major players” in the architectural industry, meaning, no one firm has a 50 percent or greater share of the revenues generated. So how can the average firm increase its revenue share? What unconventional profit centers might be considered to achieve the goal of increased revenue share?

In this section, we examine some of the current trends and suggest other opportunities for the future.

Adding Related Disciplines

Currently there is an industry trend of combining architectural and engineering services into one company in order to provide a “one stop shop” to clients as a value-add, and thus increasing company revenue. This merging of disciplines has been happening for several years now to the point that most of the firms at the top of the industry are either A/E (Architecture/Engineering) or E/A (Engineering/Architecture) firms. Very few offer solely architectural design services.

Large companies are more likely to serve high-value clients and offer additional services, including engineering and construction, which offer more opportunities for income.

(IBISWorld, June 2016, "Architects in the US")

Even offering more directly related services such as landscape architecture and interior design will immediately increase a firm's ability to obtain new contracts and raise income.

Product Manufacturing and Sales

Another pattern that has been apparent in other industries, but only flirted with by architects is the idea of product manufacturing or branding. Architect Michael Graves successfully created a product design profit center for his firm through the design of household items. The famous tea kettle designed in collaboration with Alessi, an Italian product design company, resulted in over 150 products over many years. Graves was invited by Alessi to participate in a design show that resulted in the successful partnership.

Today's architect could seek out partnerships for design of product, furniture, building materials, and various other items. Other industries are encroaching on the architectural realm to brand buildings (Read further about Fashion Hotels in [Chapter 6](#): Process Versus Product), so it is only fitting that architects too, look to other industries to widen their influence.

Frank Lloyd Wright famously designed not only the building, but everything inside the building as well. Reproductions of iconic furniture designed by the famous architect are still available for purchase today online via trademarks and copyrights owned by the Frank Lloyd Wright Trust. Creating a product division is another method of ensuring that the firm is insulated from the next inevitable recession.

Real Estate Development

This book has devoted all of [Chapter 7](#) to the idea of the architect as a real estate developer. Making this move is one way to reduce the negative impact of significant time and expense spent on finding clients and commissions to keep the firm operating. Real estate developing has the capacity for high profit returns, but also requires greater upfront risk. If the architect or firm has the financial capability and is

willing to take the risk, then it can be a smart decision provided the economy is healthy and supportive.

Creating a profit center based on real estate development will require separation of operations and accounting, and recruiting individuals with different skillsets than what might be in your current office. It will also require the architect/owner to have access to capital and investors, and a working knowledge of real estate finance tools and transactions (e.g., escrow, tax increment financing, tax credits, pro formas, etc.).

It would be wise for the architect, firm owner, and/or principals to take courses in real estate finance, land development, and urban planning to help build the foundation needed to become a successful developer. Architects who have transitioned into the developer role include John Portman, Jonathan Segal, Andreas Becher, and Sascha Zander & Christian Roth. Their success stories will be shared in [Chapter 7](#).

General Construction—Design/Build

With the Design/Build form of project delivery being the preferred method of institutions and governments for new buildings and major renovations, an architecture firm may decide to take on a contractor/builder role to create a new profit center.

Typically, design/build projects are led by General Contractors and construction companies. However there is no reason why an architect cannot lead the team and keep the building function in-house. An architect is already familiar with all the stages of the design and construction process, although additional knowledge revolving around critical path methods and construction scheduling is needed to take on the builder role.

Establishing a separate division to provide design/build services is an easy transition since it is a related field that the architect is comfortable with. In decades past, the architect was considered the “master builder” and did indeed lead the design and construction phases. I am aware of professional engineering companies who have made the transition to design/build services as a result of doing federal government work.

The challenge for an architecture firm will begin with obtaining bonding for the company, but there are bonding companies in the industry that are willing to work with a firm to get its initial bonding

and then increase the bond limit amount as it successfully completes projects.

In some cases, the architectural designer becomes General Contractor of a product that their office has created. A number of architects have created modular buildings, yet few have moved the product into a manufacturer process for sales and replication. Blu Homes (www.bluhomes.com) is an example of a start-up company that took the initiative of promoting environmental friendly modular home designs by becoming designer, developer, and builder. As of this writing, the company has been on track to earn over \$30 million in revenue for the year 2016.

Patents/Intellectual Property

There remains within the existing structure of the architect's office, an opportunity to create additional revenue from already completed projects. It is common for any architectural project to create details or even construction processes that resolve a particular problem and require a custom solution. In designing these bespoke solutions, whether through intricate details or descriptive processes, there is the possibility of filing patents which may be sold for profit in the future.

Since architects have invested their time, money, and skills into creating useful designs and solutions, they should grab the chance to turn these into valuable assets that can be licensed and resold over and over. A firm with new designs in the works or even several years of past projects may have many opportunities to patent solutions that can protect the architect's creativity from being degraded, while providing constant additional income for the firm.

Below, Bryan William Bockhop, a patent attorney in Georgia describes two options for architectural patents.

Utility Patents

A utility patent protects the functional features of a useful object. To be patentable, the object must be new, useful and nonobvious. The newness standard requires that the invention has not have been publicly disclosed prior to the filing date of the patent application (with limited exceptions). The usefulness standard requires that it has a use, which should not be a problem with architectural designs (except for certain "post-modern" designs).

The nonobviousness standard requires that one of ordinary skill in the art (architecture in this case) would not have been motivated to combine prior art references (e.g., existing buildings and publications) to achieve the claimed building. The question of nonobviousness involves a complex legal analysis, which requires the advice of a patent attorney. In the discussion that follows, I refer to different patent numbers (e.g., 2,172,838 and D477,417). All of these patents can be accessed at the US Patent Office website (<http://patft.uspto.gov/netahtml/PTO/srchnum.htm>).

Utility patents can protect entire buildings that have novel functional features. For example, US Patent 8,371,073 protects a building with integrated systems that reduce dependency on external resources; US Patent 2,172,838 protects a slanted building with an offset arrangement of successive stories; and US Patent 3,866,363 protects a wind energy dissipating building. Similarly, utility patents can protect functional elements associated with a building, such as lighting systems (e.g., US Patent 8,172,435), bio-retention basins (e.g., US Patent 8,834,066) and window covering head rail cornices (e.g., US Patent 5,042,548). US Patent 8,336,261 protects an entire revolving roof for a stadium.

When thinking about which functional aspects to protect, think of every aspect of the architectural design: Foundations, framing systems, utility distribution systems, energy management systems, people placement, and transport systems, glazing systems, roofing systems, room layouts, etc. As any architect can appreciate, the list can be quite lengthy, which serves to emphasize that there are many aspects in design, that can be considered or applied for patenting.

Design Patents

Design patents protect the ornamental features of a useful object. Ornamental features are features that serve aesthetic purposes, while a useful object is simply an object that has an identifiable use. Design patents can be extremely powerful tools that an architect can use to keep imitators away from a valuable design. Design patents can protect the ornamental features of entire buildings.

For example, the Manhattan Apple Store is protected by design patent D648,864. Additional examples include: A dwelling structure (that might be described as “post-modern”) is protected by D477,417; a pyramidal theater building is protected by D256,163; and a twisted high-rise building is protected by D304,081. Design patents can also protect individual design elements that are part of a building. For example, D553,763

protects balusters; D393,319 protects cornices; and D245,424 protects fountains. Any novel ornamental aspect that gives a building its unique character can be protected with a design patent.

(Patents for Architectural Designs [Buildings and Design Elements]
www.avvo.com—April 1, 2015)

Architects generally have not taken advantage of the opportunity to patent their design ideas and don't look at patents as potential revenue generating sources. Working with a patent attorney, a firm might review recent or past projects to determine if any portion or all of a design would be worthy of protection via the patent process. More importantly, a firm should determine if there is a reasonable opportunity for licensing or selling use of the patented design.

Resale of the patented design(s) creates another method to increase the value of currently held intellectual knowledge and assets. Finding income in past projects which have been closed and forgotten in the flat files or electronic storage media of the office may prove to be a very successful treasure hunt. Knowledgeable staff should be designated to review every project with the goal of looking for patentable features that will protect the firm's creativity and provide future revenue.

The idea of licensing a patented design is no different than how reproductions of famous artists' paintings are handled as reprints. Each time a reprint is sold it not only brings immediate profit, but it also adds value to the original. Imagine if architects were to resell even 10 percent of their designs each year with no additional effort or costs. For most firms, embracing this strategy to generate passive income would double profits for the company.

Sale of Predesigned Plans

For decades, the idea of selling predesigned residential home plans as a product has been an accepted standard. Take Sears, Roebuck & Co. as an example. Using their mail-order Modern Homes program, the company sold about 70,000–75,000 homes from the years 1908 until 1940. Over that time, Sears designed 447 different housing styles for purchase. (See www.searsarchives.com/homes/index.htm).

Today, it is not uncommon for residential architects to provide "stock" plans over the internet that consumers can purchase, download, and modify for construction as needed. The ability to provide these plans at a reduced rate enables people who cannot afford to hire

an architect, an opportunity to live in a well-planned, architect-designed home just the same. A firm with an extensive residential portfolio has little to do but place previously completed designs on a website and enable financial transactions through a bank's ecommerce system. The website becomes a new profit center for the firm with few upfront costs or learning curves.

Interestingly, the sale of commercial building stock plans has not yet become mainstream. However, the goal is the same and the impact could dramatically reshape our built environment. Any firm with a prolific portfolio of church, school, hotel, library, or various buildings can post their drawings to sites like mydesignplans.com to start a new profit center. Work that has been completed, occupied, and permitted could potentially be resold to other users to create additional income.

There should be no fear or assumption that reselling previously completed construction documents will negatively affect the industry since site adaptation will need to take place with every project. Besides, a local architect will still need to be retained as architect of record in the locality where the new project is located. Alternatively, the original architect can be hired to modify the plans and submit for the new location. In any case, the process still brings income to an architect, so there is no need to resist where the industry is likely headed. It's better to be ahead of the trend than to play catch up later.

Reprographics

Traditionally, architecture firms spend a large percentage of annual expenses on printing costs. The need to print large format drawings (24" wide or more) for review or progress sets, client review copies, local jurisdiction permit review, and construction bid sets adds up to thousands of dollars over the course of the year, especially if the firm is working on several projects. The equipment to produce these drawings is costly to purchase (\$2,000 on average) and to maintain (i.e., ink, paper, cleaning, replacement parts, etc). All in all, annual printing expense can range from 2 percent to 5 percent of all expenses.

Though firms have the capacity for printing small jobs in-house, many firms will send jobs out to reproduction companies at critical junctures in the process (35 percent, 50 percent, 90 percent, or 100 percent CDs). Even with modern technology involving electronic files (.pdfs), institutional clients are still requesting paper copies. Depending on the quantity of the print jobs, the money an architecture firm spends on

outsourcing printing services could potentially be used to purchase a print shop.

Startup costs for a Minuteman Press franchise can range from as low as \$62,000 up to \$165,000 depending on whether the equipment is leased or purchased. With an average return on investment of 6 percent, an architecture firm with an embedded print shop would immediately strengthen the company's balance sheet.

One significant benefit of owning the print shop is that services could be provided for other businesses and individuals resulting in increased revenues. Moreover, the attachment of a print shop to an architecture firm means the steady influx of customers to the print shop, which can also be a method of bringing potential clients into the architecture firm. An opportunity to perform marketing outreach without ever traveling off site has been created. The idea of taking "walk-ins" in the same manner as a medical office has never been practical for an architecture firm, but this concept is a close substitute for bringing potential clients to the business.

Shop-for-the-Client Service

Clients look to their design professionals to guide them on material choices, aesthetics, house or building furnishings, and fixtures. Architects can profit by providing clients with an added service: Choosing and shopping for furnishings and fixtures for them (client) throughout the design process.

The architect, being within the trade, typically can purchase items at 15 percent off list price. Architects should offer to support the client who needs assistance or prefers to delegate the responsibility of purchasing fixtures and furnishings, and capture the 15 percent margin as well as consider charging the customer an additional 5 percent for time spent. To the customer, they see this valuable service only costing them 5 percent while the architect realizes 20 percent of furniture and fixture expenditure as new revenue.

Product Division Ideas

E-Books

Architects have several areas of expertise that the general public may find not only interesting but also very useful. Such knowledge can be

broken down into specific topics, focusing on how-to-guides, and produced as e-books. Topics such as “How to Select an Architect,” “How to Get a Permit Approved,” “How to Stay on Budget and On Time When Building,” and other practical tips would be very appreciated by both existing clients and the public. For those in the architectural profession, some valuable guidance on “How to Use CAD/BIM,” “How to Manage an A&E Firm,” “How to Grow an A&E Firm,” “How to Acquire an A&E Firm,” and “How to Win More Projects” would be good topics to start with.

In addition, architects have unique insight and access to valuable information about their local market. Architects can be familiar with future plans of their city, overlay district, special reinvestment tax incentive, and in general, what is happening and what is trending in their local real estate market. This valuable insight can be packaged and presented in e-book format and include topics like “The Hottest Real Estate Trends in Anytown, USA,” “New Development Report for First Quarter,” or “Analysis of City Plans,” and more.

E-books offer the opportunity to demonstrate your expertise, create passive income, and supplement service-based revenue. Selling 500 e-books at \$49 each generates \$24,500 in revenue with nearly zero incremental per unit cost.

Website or Blog

Creating a website for your architecture firm allows you to share your expertise, advice, and opinion which can be of great value to clients and the public. This also gives you the opportunity to reach and impact potential customers even from across the globe. You may offer great content for free through your blog posts, while giving readers the option to get more in depth information on a topic for a fee by downloading your e-book (see above).

Other passive income revenue opportunities can come from advertising, referral commissions, and affiliate marketing commissions, and taken as a whole, this can be extremely lucrative. Advertisers pay for banner ads and referral commission could be generated from blog visitors who click through to other sites. By putting up a website or blog, you earn additional income to promote your firm and expertise.

Videos

Today's technology makes it easier and cheaper than ever to create videos. Architects should create short videos on a regular basis, talking about areas of expertise, trends in design, happenings in the market, and how-to advice on technical topics. These videos do not need to be huge productions, rather, 4 minutes or less. You can create your own YouTube Channel, and if that channel gets a good number of subscribers, companies will pay for click through referrals from your video site, earning you a share of Google AdSense dollars.

These advertising and referral commissions can be quite lucrative. Take for example, the story of Pat Flynn. He created a four minute "How to Set Up a Website" video and earns \$65 per referral, totaling \$100,000 per year from Bluehost, a web hosting company selling annual web hosting services. Establishing your own YouTube channel also amplifies your overall web presence and improves the likelihood of your website being highly ranked on Google searches.

Online Courses

Creating educational products is another great way to generate passive income. Written material or videos are great options to share your knowledge about various topics and skills. Any in-person training and education should always be videotaped to be marketed and sold online. Beware of binding yourself into the business, but rather build automated processes to distribute your products to generate recurring passive income streams.

Comparison Pages

Not a lot of people have good taste and most have poor design skills. They look to architects and other designers for guidance. Establishing a comparison web page gives you the opportunity show off your skills. Creating surveys such as, "Which design do you prefer?" or "Which home or building do you like better?" gives you the opportunity to promote your firm and your designs. In addition, it generates website traffic that is necessary to earn advertising income and increase referral and affiliate marketing commissions. This is a rather simple way to create passive income opportunities.

Product and Industrial Design

Architects are problem solvers, inventing and creating solutions to problems every day. These custom solutions often have mass market appeal. It is likely that the problem solved for a specific project could be valuable to hundreds or thousands of clients worldwide. These could be anything from a special hinge, a water mitigation solution, a framing support bracket, furniture, windows, doors, and many, many more.

Analyze all the solutions you have invented and identify a partner who can manufacture the product. Let the manufacturer take responsibility for production, investment of capital, distribution and sales, and negotiate a deal to earn a royalty for each unit sold. Product and industrial design can be an excellent way to benefit from the manufacturer's automated processes, earn significant passive income, and avoid inserting yourself into the business.

In Summary

The weakening of the architectural industry from outside influences requires that architects rethink how they currently view their business. Firms cannot depend solely upon the service based time for money exchange. A radical shift in traditional business-as-usual models is necessary to save the architect's job, and have him or her transition to providing a value added service that customers and the public understands and desires to use.

Looking at profit centers as a way of rebranding the architecture firm in this manner is key to changing the current mindset of licensed architects. Architects must share their wealth of knowledge and expertise, leveraging the digital world we live in to supplement their service income with the creation and marketing of scalable products to generate income.

6 Process Versus Product

Timothy A. Kephart

Architects today, due to history, training, indoctrination, and failure to evolve, face a major dilemma. They have long believed that their sole focus should be on great design, and that the process of great design, on its own, will yield notoriety and additional commissioned projects. These, in turn, should also lead to increased revenues, profitability, greater firm value, and perhaps, ultimately, wealth. The process of high-minded design however, is costly to the profession, and the marketplace most often does not support or value it properly.

The divide between the architect's vision and the client's expectations is rather great: Architects have to constantly explain that design is a process, while clients continue to myopically focus on the end result. The traditional hourly rate fee structure further distances the design-is-a-process architect from the I-want-the-plans/product-today client. This huge difference in thinking is something that the industry will have to put up with unless architects can find an acceptable compromise to meeting the client's demand for good design without making shortcuts in the process of getting there.

We have to understand that the public is looking for features and benefits. Consumer focus is always on what a product can do and how one will be better off with it. Manufacturers are rewarded for giving customers what they want in the most efficient manner possible with very little explanation for the process involved in getting there. The objective is always to deliver the product packed with features, and financial rewards are sure to follow. With this in mind, it is now up to the architect to balance the investment of time and resources into design with the client's ability to pay, project profitability, and firm survival.

Learning from the Apple Process

Consider Apple, regarded today as the world's greatest design organization. Apple enthusiasts line up and pre-order the company's latest offerings, yielding trillions in revenue. These buyers rarely consider the highly elaborate and confidential design process that went into making the latest iPhones and iPads.

According to *Inside Apple: How America's Most Admired and Secretive Company Really Works* by Adam Lashinsky, designers there are treated like royalty, often isolated with no contact with other departments within the company. More importantly, they have at their disposal, unlimited financial resources, and are assured of no limitations when it comes to manufacturing practicality of materials used (Panzarino, 2012).

Once they decide on a new product, they organize a team and segregate its members from the rest of the company, letting them sign secrecy agreements, and even putting up physical barriers where needed. Some areas of the building may be cordoned off to ensure that the teams at work on the next big project are left alone without any distractions or disturbance. Given these conditions, a "start-up" within the company is essentially created. The team members within this group are said to answer only to the executive team, effectively exempting them from the complex reporting structure of large corporations as Apple is.

As soon as the design process of a new Apple product begins, the team follows the standard protocol outlined in the ANPP or the Apple New Product Process. The ANPP is a document that meticulously spells out every step of the product development process. The concept did not actually originate from Apple but they started to implement it way back when the Macintosh was first developed. The ANPP maps out each phase in the creation of the product—what gets moving first, who takes charge of what stage, and when is the projected completion date.

While all these are going on, the Executive Team (ET) in the meantime conducts a meeting every Monday to review each of the projects that are in various stages of development at that time. With only a few products being developed at any given period, the ET can extensively review each. Items that do not get assessed on that day are listed for the next Monday's review. Such an efficient process ensures that "no product is ever more than two weeks away from a key decision being made" (Panzarino, 2012).

As soon as production begins on a product, the engineering program manager (EPM) and the global supply manager (GSM) are responsible for bringing the product to completion. The EPM has such complete authority over the product process that he is also known as the EPM mafia. Both high-ranking Apple executives, the EPM and the GSM work closely together while supervising the production in China, and while they don't always see eye to eye, eventually they agree on a decision that is best for the product.

Once a product has gone through manufacturing, Apple examines it to see how the design can be further improved, and then lets it go through the manufacturing process once more. This should explain why there may be various versions of the product leaked. The above process could take anywhere from 4 to 6 weeks and only ends when the designated Apple executive in the China factory examines the latest version and decides that it's good enough to be seen by the higher-ups.

So then the EPM travels to Cupertino, California bringing the beta device for their review and comments. Once the feedback is given, he goes right back to China to then supervise the next, hopefully, *almost-final* iteration of the product (Panzarino, 2012).

The lengthy process described above means one thing: For a single Apple product, there are already many versions of it completed and not just partially prototyped. Many may see it as a very expensive and highly impractical way of developing a new product but that's the Apple standard. And look at where that standard has gotten them over the last decade.

When the Process Pays Off

Apple's design process is inarguably more costly and less efficient, but the end goal is clear—to create a significantly better product. Considering how rigorous their methods are, it's remarkable how they manage to make as much money as they do. But they consistently find success in every product they launch. Other companies find it hard to emulate this because they are too bound to conventional methods, too traditional to even consider Apple's way of thinking.

Knowing the cost and effort that goes into each product, one may ask the question: "*How can Apple afford their design process?*"

Unlike architects who often create one-off designs, Apple leverages their excellence in design and overcomes the ensuing costs by

manufacturing and selling millions of units of every product. In addition, being a publicly-traded company renowned for its innovation and profitability means that more investors are willing to put resources into the organization, which can then go into research and development (R&D), including design.

Does the buying public know about the organization's design process? No, they don't and frankly, they couldn't care any less. What matters to them is the end product—the device they are buying.

Balancing the Design Process with Client Expectations

The same should also hold true with the architectural profession. Architects must recognize that consumers pay for the product not for the process, and adjust their practices accordingly.

The market does not support the traditional architect's one-off design-centric success premise with commensurate financial rewards. The sad reality is that the public and the majority of clients view architecture as a product and a means to an end: Blueprints, plans, documents, CAD files, and so on, with the end result being a building, occupancy, rent revenue, and sales revenue. Architects must realize that their first priority is to satisfy the client and meet their needs.

In the product-based economy we live in today, businesses are rewarded for strategic decisions and production efficiency. Rarely do design professionals get the same level of compensation for excellence in design of one-off creativity which the architect commonly strives for. Building projects and the design needs of most clients are utilitarian, functional, and common. Most clients think, "*I need plans,*" or in other words, "*I need the product*". Clients need these plans to be able to take the next steps like get funding, construct, live, or rent.

What all this really boils down to is that architecture customers do not value or embrace the creative process. They want the product sooner rather than later, and if possible, for less cost. Architects and the profession's leadership have done little to nothing to impact customers' mindset, to communicate the complex nature of architecture, and to promote the value of design and its impact on the project at hand and the environment around it. With such failure, it's difficult to shift the client's viewpoint, and therefore architects must adjust their practice to account for this reality.

Increasing Profitability: Can This Be Done?

Securing new clients where the architect's compensation is tied to hourly rates or based on a fixed fee basis has limited profitability. The majority of firms choose this model however, believing that "*the bigger we get, the better off we will be.*" Unfortunately, the addition of staff increases overhead costs, and cash and profits quickly disappear when times are slow.

Just like any service business whose profitability is based on head count times hourly rate, an architecture firm has limited revenue and profitability. After all, there are only 24 hours in a day and there is a ceiling to the hourly rates as dictated by the market. This service business equation will never change, or even if there are some changes in how an architecture firm bills clients, it is doubtful if the effect can be all that significant. But what could have a remarkable impact on efficiency and profitability is a shift in the architect's mindset and strategy.

To survive and grow, architects must supplement their high-end, high-touch design services and active income model by developing and embracing alternative passive income revenue. An architectural practice, like all service businesses, can increase revenues and profitability by supplementing its consultancy services with products.

Unlike services which require ongoing dedication of effort, and constant adding of staff, man hours, and therefore costs, products do not have ongoing incremental expenses. After initial R&D has been invested and recovered, future product-based revenues enjoy extremely high profit margins. This is where architects can realize the financial rewards of the design process.

Identifying and developing opportunities to generate passive income will increase profitability, enhance the firm's reputation and brand, and enable you to serve more clients.

Creating Product-Based Income Opportunities

Architects create intellectual property on a daily basis: Schematic Designs, Renderings, Master Plans, BIM Models, Construction Documents, Plans, and Elevations are the "products" an architect creates. These architectural products are often put together for specific clients without expectations on being able to reuse them.

Now not all clients have the budget or time to work with an architect in the traditional one on one design-for-hire model. On the other hand, architects, needing the work, often compromise their time and profitability to force a bad project fit. This predicament often leads to frustration for both parties, and adversely affects the architects' bottom line and the growth of the firm.

It doesn't have to end up in a lose-lose situation. Architects can best serve this type of client (*and there are many of them*), and find satisfaction for their work, by creating products from their intellectual property. Licensing plans to clients creates predictable passive monthly income streams, serves a greater number of clients in the marketplace, and enables the architect to be more selective in working with design clients.

Architects are also responsible for multiple tasks in the building process, but most of the public don't know this. A survey of 2,031 adults done by www.architectsmarketing.com yielded interesting results:

- 72 percent of respondents are unaware that architects apply for permits;
- 79 percent did not know that architects are responsible for ensuring buildings' compliance with health and safety regulations; and
- 86 percent were not aware that architects select, negotiate, and manage construction contractors.

Considering how most consumers find these concerns as the top obstacles to commencing a construction or renovation project, the results reflect how little the public knows about the work of the architect. The image of an architect hard at work on a building design is the one that immediately comes to mind when a mention of the profession is made. But design creation is not the only thing that defines the architect, and people need to be aware of that.

Architecture firms should therefore consider the opportunity to educate the public through the delivery of passive informational products to be a potentially lucrative income stream. Creating a library of educational e-books, videos, and tutorials boosts a firm's reputation as an expert, and generates passive income at the same time. In addition to generating immediate baseline revenue, making such information available educates the public about the expertise architects can provide. It can clearly highlight the ability of architects to overcome obstacles

in behalf of their clients, and emphasize the value architects bring to the marketplace. In many cases, clients may even choose to utilize the services of the architect upon learning of the red tape involved.

That not many people know the capabilities of the architect is an unfortunate fact. But given how valuable the architect's services in construction projects can be, firms can turn the public's lack of awareness into an opportunity. What they (public) don't know may not hurt them, but what they know now may greatly benefit the architect.

How Do the Others Do It?

To validate these recommendations, architects should take a look at the medical and legal professions. There are many similarities among architecture, law, and medicine. For one, each requires extensive education, licensing, and dedication. Each is a service-based business with services provided to clients on a one-on-one basis. Each profession also follows a process to cater to its respective clients.

This is where the similarity ends, however. The medical and legal professions have evolved, while the architectural profession has lagged. Practitioners in law and medicine have embraced and profited from recognizing and developing legal and medical profession products.

In the legal profession, I am talking about www.legalzoom.com and dozens of similar competitor sites that provide legal products including templates of wills, sales agreements, contracts, and so on. Legal Zoom on its own, according to PitchBook, has a market value of \$425 million, and has served 3 million clients, significantly more than any architecture firm.

In the medical profession, I am not referring to the billions earned from sales of pills, medications, and medical devices. The product I refer to is *information*.

WebMD and dozens of other competitors have greater market value than the largest practice of doctors. WebMD's recent market value was estimated to be approximately \$2 billion, with 199 million monthly unique web visits and 4.23 billion unique page views. WebMD has about 16.7 percent market share of all web views for health information, and expects approximately \$700 million in revenue and \$18 million in profit for 2016 alone. WebMD is just one sliver in the overall medical information product pie. Countless medical books, videos, educational

coursework, and seminars yield billions of dollars for those in the medical profession.

While the legal and medical professions continue to serve clients who need one-on-one service, these professions were able to recognize that branching out from their high-touch service model would open up an enormously large and profitable market opportunity. Such opportunity involves serving more clients with passive income based products and information.

In Summary

This chapter does not aim to take away anything from the architect's design process. Yes, we are artists and the creative process takes time. But times call for going beyond the traditional thinking that "*great design equals great rewards.*" Rather than getting more out of the process, architects should find the financial rewards from their products. The legal and medical professions have been immensely successful in finding other ways to create value and income out of their expertise. It's high time the architectural profession follow their lead.

7 The Architect as the Developer

Karl L. Moody

Individuals of any background or field should develop the mindset of being proactive when it comes to work. It's about not waiting for someone to give you work, but taking your situation into your own hands and finding opportunities for career and financial advancement. Architecture is one of those professions where securing your future is very much possible. Unfortunately though, architects, as we know them today, are always just waiting for work to come. In the current competitive landscape, this attitude won't take you anywhere.

On the other hand, there is the architect-developer. He or she is someone who creates his or her own opportunities, projects, work, and then of course, enjoys the resulting revenue growth and profit margin. The architect who has an open mind to be a developer knows how to mitigate liability, understands finance, builds capital, establishes financial relationships, and values assets and property.

Architects have not been trained to think about budgets, market conditions, debt-to-income ratios, and other critical components necessary to run a banking-intensive enterprise such as real estate development. However, architects are creative and understand the general concepts of building complex structures. If the architect can successfully relate his/her general knowledge to the first part (*project finance*) and last part (*sale of the property*), the architect can survive and potentially thrive in the treacherous waters of real estate development.

A Venture into Design/Develop

Transitioning from architect to developer is no easy task. The mindset is completely different, and merging the two disciplines could prove

to be disastrous for the architect who has long since leaned more toward being the artist instead of the banker.

But just because it's difficult doesn't mean it can't or hasn't been done. In fact, there are a number of successful architects who have crossed this seemingly insurmountable chasm and created solid models for the architect developer. Architects like Jonathan Segal and Tim McDonald of Onion Flats have been operating on precisely this model of design/develop and have seen many rewards because of it. They have managed to gain popularity as well as earn millions of dollars for their award-winning projects.

Talk of the architect taking control of his/her own future has been occurring in earnest since the 1970s when John Portman championed the idea. To date, the architectural industry has not fully embraced the idea of becoming both designer and developer, but why not? There are many individuals like Portman who have stepped up to the challenge and have successfully developed their own projects. But these individuals are exceptions to the rule rather than the common trend. Let's look at why this may be the case, and what needs to occur to swing the pendulum toward development and design rather than just development.

Historically architects' work came from commissions by wealthy patrons. Similar to an artists and artisans, the wealthy "employer" would have individuals "on the payroll" to create whatever it was they desired whether a new mansion for themselves or a family member, a religious building, or a building for the city government where they ruled. The famous Italian Medici family comes to mind as greatly influencing the arts and architecture of Florence through its patronage of Brunelleschi, Da Vinci, and Michelangelo. The Medicis were the developers, and the architect was the means to the end.

This tradition has been passed down throughout the ages as the only source of work for architects. One must wait on a benefactor, be it a wealthy patron, the church, the government, a school system, or other owner/user to begin their work as architect. Essentially, the architect must be given a site or building for alteration in order to move forward. This expected waiting for projects to materialize has negatively affected the industry as it has not matured in its efforts to motivate architects to go out and obtain work rather than waiting on it to come to them. It also discourages architects, who think it is not their place to go out and develop projects that might be needed.

But if an architect were to go against tradition and decide to venture out to find, build, and design their own projects, how would that look? What would be the process?

What Should I Develop?

Any project could have the potential to be developed provided there is a need. The architect should not shy away from any type of project that can be justified as serving a purpose for an individual, group of individuals, or society in general. Real Estate development is largely driven by return on investment. Thus the architect should seek to develop something that is going to provide a return either financially or personally or both. Many real estate developers get their start with small residential projects. This is an ideal way to get one's feet wet as entry level funding is low enough to be achievable, and the projects are generally simple enough to require navigation of complex regulatory processes.

A few architecture firm owners will invest in their own office by purchasing a building as a base of operations. This should not only be viewed as a necessity to house the practice and personnel, but is also a foray into real estate development. The type of building, the location, the size, whether there are other tenants, etc. all contribute to determining if it is a good development decision. Of course, the financial issues such as equity, financing, interest rates, down payments, and investors, also should factor into what you develop.

If you wish to take on more risk and pursue a larger project like multi-family housing or a small office building, then consider getting investors involved in the project, preferably investors who have experience in real estate development.

I Know What I Want to Develop, so What's the Next Step?

A number of steps need to occur simultaneously prior to moving forward with the projects. Zoning and land use research, site selection, and funding are among the items that must be conducted to flesh out the best possible framework for the projects. The most significant factor will be financing the project. As a professional you should already have a working relationship with the consultants that you need to do business. You probably already have a banker and attorney on speed dial with regard to general business practice.

PROJECT PROFORMA

| ADDRESS: 987 MAIN STREET, METROPOLIS, USA | | | | | | |
|--|------------|-----------|---------------|--------------|--------------|------------------|
| Buidling Income Sources | # of Units | Unit Area | Tot. Area, SF | Monthly Rent | Month Tot. | Annual |
| 1BR-R-1BBA | 42 | 800 | 33,600 | \$ 1,100.00 | \$ 46,200.00 | \$ 554,400.00 |
| 1BR-R-WDEN-1.5BA | 21 | 1252 | 26,292 | \$ 1,250.00 | \$ 32,500.00 | \$ 315,000.00 |
| 1BR-R-1.5BA | 7 | 1385 | 9,695 | \$ 1,350.00 | \$ 9,450.00 | \$ 113,400.00 |
| 2BR-R-1.5BA | | | | | | |
| Retail Commercial | 21 | 1470 | 30,870 | \$ 1,500.00 | \$ 31,500.00 | \$ 378,000.00 |
| Community Spaces | | | | | | |
| Non-rent Circulation | | | | | | |
| Garage Parking | | | | | | |
| 59 PARKING SPACE @ \$50 PER MONTH | | | \$ 2,950.00 | | | \$ 35,400.00 |
| TOTAL ANNUAL PROJECT INCOME | | | | | | \$ 1,962,200.00 |
| <i>Less Annual Management/Taxes @ \$3,000/pu</i> | | | | | | \$ 309,000.00 |
| AMOUNT REMAINING FOR ANNUAL DEBT SERVICE | | | | | | \$ 2,887,200.00 |
| PROJECT EXPENSES | | | | | | |
| Total Land Acquisition Costs | | | | Per Unit | Total Amts | \$ 735,000.00 |
| Construction Costs | | | | | | |
| Bldg Structures (43,515.75 SF) @ \$175psf | | | | | | \$ 7,615,256.25 |
| Parking Garage Below Grade (39,700 SF) @ \$50 | | | | | | \$ 1,983,900.00 |
| Hard Cost Contingency @5% | | | | | | \$ 380,762.81 |
| Unusual Site Improvements | | | | | | \$ 150,000.00 |
| Permits & Zoning | | | | | | \$ 50,000.00 |
| General Requirements @ 2% | | | | | | \$ 152,305.13 |
| Builder's Overhead @ 5% | | | | | | \$ 380,762.81 |
| Builder's Profit @5% | | | | | | \$ 50,000.00 |
| Other | | | | | | |
| Total Construction Costs (TCC) | | | | | | \$ 11,878,749.81 |
| Arch/Engr Fees @ 6% TCC | | | | | | \$ 712,724.99 |
| Project Financing @ 8% TCC | | | | | | \$ 950,299.99 |
| Total Land/Construction/Fees & Misc. Other Costs of Project | | | | | | \$ 14,276,774.79 |
| Developer Fee @ 10% of Costs | | | | | | \$ 1,427,677.48 |
| 15,704,452 | | | | | | |

Figure 7.1 Real Estate Pro Forma Template.

These same consultants are the ones you will need to turn to when creating a development deal. But the discussion you need to have now will involve vision and value rather than clients and services. We tell our clients that they need to have possession of the site prior to our providing services to them. Or we suggest to them to have a feasibility study completed that outlines the opportunities for a specific site before purchasing a property. When venturing into real estate development, the architect must begin to take a dose of his or her own medicine and carefully examine the viability of the desired development on a specific site, how much money it will take to build, and how much money it can potentially make as income.

This traditional analysis is conducted via a real estate pro forma spreadsheet which provides the architect/developer with potential scenarios for the construction cost, potential revenue, and breakeven point for the development. You should potentially run development scenarios of a project on several different sites to evaluate the financial, budget, and scheduling ramifications for each location. Adjustments in size, height, massing, volume, delivery date, venture capital, etc. can determine the highest and best layout for a particular use at a particular location.

Once you have completed all the zoning, land use, and feasibility tasks to determine the most viable option, and pinpointed and selected the site locations to install it, your sole focus will be to find the funds to purchase the property and bring it to fruition.

Note: Occasionally, architects or their family members or friends already have a property that they wish to develop, but have no idea of what should be built on the site. This situation is a reverse of what was discussed above in that you have the property, but need to do the research, both market analysis and regulatory evaluation, in order to find out what the best use of the property might be. However, that scenario will ultimately lead you to the same next step which is financing.

Can You Obtain the Money to Build What You Want to Build?

In a prior chapter, we informed students and young professionals to be responsible with finances to insure they have a very good credit rating or higher. The reason is that you may one day get to the point where you need to rely on that credit rating to obtain business credit

or loans to grow your business via acquisition and/or become an architect/developer. A number of factors will weigh in on how much you are able to obtain in loan including your existing assets, your debt-to-income ratio, your business and personal credit ratings, your relationship with a bank/banker, your firm's recent financial statements and records, and even your health may be questioned by the bank from which you are requesting to secure a loan.

The final answer for how much loan you'll receive can only be determined in a conversation between you and your lending institution. If for some reason you are not able to secure a bank loan for the amount needed to pursue the development, you can pursue other avenues including personal loans, business credit, venture capital, and partners/investors.

Let me remind you that most developers are using someone else's money for their projects. This shouldn't be news to anyone but let me just tell you that the most successful start-ups and even large conglomerates have gotten to where they are now from borrowed money. Just get your designs and ideas ready, and back it up with a concrete plan of action. You could also start making a list of people who would be willing to invest with you.

Keep in mind that it may better to start small and grow than to risk it all the first time out. You could consider scaling back the project to a size that is manageable and which the bank is willing to finance. A smaller, successful project will be your springboard to a larger loan and bigger project the next time around.

You've Secured the Loan, Bought the Land, Designed the Facility, Started Construction: What Else is There to Do?

As an architect, you are already well versed in getting the building designed and under construction. Even immediate post-occupancy is a standard process that the architect may be involved in. But as a developer, what happens after the construction ends may be a bit more elusive since it will either involve managing tenant, rental contracts, or a real estate sale. Just before substantial completion is achieved, an agreement with a real estate group for management and/or maintenance might be desirable. You as the architect/developer have the power to determine the fate of the project. Will you keep it? Sell it? Rent it out? Whatever you decide, a successful project can be used as a stepping stone to the next real estate development project.

Architects already perform services as a conductor of a big orchestra including engineers, contractors, specialty consultants, etc. In the role of developer, the orchestra becomes larger because it now includes the lending institution and real estate professionals. But it's still within the skillset of the architect to direct the activities of a group of professionals toward a larger goal of development. It's really just juggling a few more items.

Some architect/developers manifest all these activities by bringing every role into one company or separate divisions of the same umbrella company. It will be up to you to determine what aspects you will wish to focus on as you pursue more and larger development projects. The initial talent you would need to start out includes: Design, Construction, Real Estate Sales, and Finance. Below, we've compiled a brief list and description of successful architect developers that you can use as an example and inspiration for your company's development framework.

Noteworthy Names in the Architect as Developer Space

John Portman

John Portman is an American architect who founded his office in 1953 in Atlanta, Georgia. He is literally the grandfather of the "Architect as Developer" principle which he describes in detail in his book of the same name. During his 50 year long working period, he initiated many buildings as a developer and planned those as an architect with his office. Thereafter, he mainly focused on hotels and shopping malls in downtown Atlanta.

Portman felt the classical role of architects as too passive and undetermined. It is for this reason that he decided to become a real estate entrepreneur and to develop his own projects. After he initiated a development, he commissioned his own office to design and build the project. In this way, he managed to combine two professions—architecture and real estate.

His vision as an architect had created possibilities and solutions which ordinary investors would not have evaluated as promising. At the same time, he proved that large, spatial structures which normally would only appear in subsidized institutional buildings could also be promising investments for commercial use. Portman learned how to think real estate

architecturally and to see architecture in an entrepreneurial way. He understood how to interfuse urban visions through the control of the whole process of development, financing, and planning. And in doing so, he created buildings with high quality of sojourn and design.

(Archipreneur, n.d., "Architects as Developer: 5 Portraits of Successful Firms". Retrieved from www.archipreneur.com/architect-as-developer-5-portraits-of-successful-firms/)

David C. Hovey, Founder of OPTIMA

David Hovey founded Optima in 1978. The company's name summarizes Hovey's ambitions then and his achievements now. Hovey wanted to reinvent residential housing by optimizing development, design, and construction. Even more, Hovey wanted to raise the design standard by building architecturally ambitious housing designed to accommodate modern people with their contemporary needs.

To date, Optima has completed twenty-nine multi-family projects—more than 4,000 units—built in the areas around Chicago, Illinois and Phoenix, Arizona. The scale has risen dramatically over 30 years: From the company's first project of six units—townhomes in Chicago—to more than 650 units in three towers at its most recent project, Optima Old Orchard Woods in suburban Chicago. In addition, Hovey has done a series of four experimental single-family homes in a gated community called Desert Mountain in Scottsdale, Arizona. The company has received dozens of awards for everything from architectural excellence, to planning and green design.

Hovey believes in continually refining housing through design innovation and using new technology. He was early to incorporate green thinking and sustainability into his work. Since the 1980s, his projects have featured green-roof sky gardens that help the environment and reduce energy consumption. Solar power has been routinely employed in recent projects.

(Retrieved from www.optimaweb.com/corporate/company/david-c-hovey.php)

Jonathan Segal

Jonathan Segal, FAIA, is an architect who practices in a different reality from most architects. He creates his own reality. Since his first project, 7 on Kettner, hit downtown San Diego in 1991, Segal has been a

champion of an alternate practice paradigm for architects. He develops, designs, and builds his own projects. Developing his own projects is like “*pushing boulders uphill . . . but worth it*,” he remarks. Over the past 20 years he has fine-tuned his architect as developer model into a well-oiled machine, which he outlined for us in an interview.

In an episode of Business of Architecture TV, Jonathan Segal shares his motives and the advantages of developing his own projects. He gives suggestions for how architects who wish to develop their own projects can get started. “*Just do it*,” he says.

He also discusses three project types that beginning architect as developers should consider. We also talk about his work at length as a co-founder and professor at Woodbury University’s Master of Real Estate Development program. Finally, Jonathan tells us about his online seminar for aspiring architect/developers aptly named “Architect as Developer.”

“I want to educate architects on what I do,” he states. “I want to help them liberate themselves. I want to teach people on a nationwide basis about what I do.”

The office of Jonathan Segal has specialized in designing and developing residential buildings in San Diego, California. Segal developed his first building at the age of 25 right after graduating from university. Since then, he never stopped to build for his own without any client.

Through the combination of the two roles, architect and developer, he managed to finish striking residential buildings which represent the Californian lifestyle and show high spatial quality. The interesting part of his business model is that he exclusively develops rental condos which he holds in his own portfolio after. Since the establishment of his office in 1990, he developed and built more than two dozen projects. In 2006, Segal sold 141 apartments for \$45 million to a group of investors.

He also encourages other architects to develop their own projects. In a video on his website he says, “Through the control of the whole process and the elimination of the client, you can build and design what you want and earn fair rewards for your work.”

Jonathan Segal teaches at the Woodbury School of Architecture in the Master Program Real Estate and Development together with other experienced developer architects.

(Business of Architecture, n.d., “Architect as Developer: Taking Control of Design and Getting Paid for It”. Retrieved from www.businessofarchitecture.com/podcast/architect-as-developer-taking-control-of-design-and-getting-paid-for-it-with-jonathan-segal-faia)

Sascha Zander and Christian Roth

When Sascha Zander and Christian Roth wanted to start up as architects after university, they could not find any client. So they decided to search for a possibility to generate jobs themselves. They saved a piece of land in Berlin via a purchase option and organized several private clients into a building group (German “Baugruppe”) for which they planned and built.

Since then, they have finished several award-winning residential buildings with the same concept. Their projects deal with high density in urban areas and they created multiple innovative residential typologies. They were also able to establish the concept of the “Baugruppe” or building group since then. Zanderroth even founded a firm called SmartHoming which specializes in organizing such projects.

The concept of SmartHoming is as follows: “Ambitious architecture in urban locations with affordable prices. The goal is to affiliate the future owners into a legal structure which acquires the land and assigns the architect.”

Zanderroth Architects practice a special kind of real estate development. The client gets the opportunity to save on the developer’s margin, while the architect gets the job and determines the architecture. This is a variation of job acquisition where the architect does not hold the development risk but has the opportunity to build great buildings as references for himself.

(Archipreneur, n.d., “Architects as Developer: 5 Portraits of Successful Firms”. Retrieved from www.archipreneur.com/architect-as-developer-5-portraits-of-successful-firms/)

Roger Zogolovitch, Founder of Solidspace

Roger is a practicing architect and independent developer with 40 years of experience in the field. He has built an impressive portfolio of urban housing projects on gap sites in London. He prides himself for never having worked for another firm since the beginning of his career. He has always worked for himself. Being a firm believer that architects can, and should, be developers, one chapter of his book “*Shouldn’t we all be developers?*” is entitled “Land to development is what the canvas is to the artist.”

Roger implements “spatial DNA” into his projects by arranging spaces for eating, living, and working on a connected series of split levels. By doing so, Roger can use his architectural skills to build unique projects

on otherwise difficult sites in London and also to create beautiful living environments for people.

(Archipreneur, n.d., “The Solidspace DNA: Roger Zogolovitch Shares His Insights on Being an Architect Developer”.

Retrieved from www.archipreneur.com/the-solidspace-dna-roger-zogolovitch-shares-his-insights-on-being-an-architect-developer/)

Andreas Becher

For years now, Andreas Becher and his office BRH Architects have not only been working as architects anymore. They are also functioning as residential developers in Berlin. The first development projects were three atelier houses in Berlin which he designed for his family and for friends. This is a learning process which Jonathan Segal also recommends: Start small with the first project and build for your own for example.

Since then the office overtook the whole development process. They are buying land and developing ideas and concepts out of it. They create feasibility studies in which they define potential target groups, markets, use, and sales prices. And finally they plan, build, and sell the buildings.

(Archipreneur, n.d., “Architects as Developer: 5 Portraits of Successful Firms”. Retrieved from www.archipreneur.com/architect-as-developer-5-portraits-of-successful-firms/)

Reality Check

Now that you’ve read about architect/developers, you’re probably interested in becoming one of them too. First ask yourself some questions. First, do you have money? Do you have family members who can and will back you with their money? Do you have some friends who will back you with their money? Will you put your life on the line for the money?

Ok so now you’re getting the message. If you don’t have the money, you can’t be an Archi-Preneur. So how do you get the money to be this Architect/Developer? You can start with the banks, but you will need a great credit score and other assets that the bank can take as collateral. As you can see, no one cares if you’re a great designer or not. Your new focus as an Architect/Developer is getting money and keeping money!

So if your great design concept gets in the way of making and keeping money, more than likely, the design concept is going to have to give way. Remember, banks do not take great ideas as payments on debt; however, they take your house and your car if you can't make the payments. The lesson here is: High-minded idealism will always give way to economic reality.

So before you look down on a developer for making a decision which you may assume is not in line with quality design, always take a page out of his book which is "cash is king." As long as you have cash, you're king.

The King of Design

If *cash is king*, how do you provide quality design work within your projects? You may not like the answer I am about to give you: Profit is math. It's just debits and credits, and you're going to need this math to make sure you don't go homeless trying to be this great Architect Developer.

So the money has to come from somewhere—you or your customer. But you are hoping for your customer, while spending your cash. If the customer doesn't buy, you're homeless; it's game over. With this in mind, holding onto as much cash as possible is the prudent goal. How do you give the customer the highest quality product and not go homeless at the same time? You cut the design service budget by any means necessary. I know some of you are screaming right now, "*But all I want to be is a great designer, a great architect. How does this play in my world?*"

The key is niche-design typing and reusing the same designs over and over again. This process cuts design cost and construction laborer training, and gives you volume discounts on construction materials. As you can see, if quality design is what you're seeking to accomplish in your architectural career as well as seeking the brass ring of being a developer, it won't be an easy path. The only way to accomplish these two opposing goals is to design once with the greatest quality you can muster, and then repeat the same project over and over again.

In Summary

Let's face it. Every architect wants to make a name for themselves, whether for their amazing designs or for the financial prosperity

they've achieved with their career. One way of having both—being able to do great design at your own terms and financial success—is going the architect as developer route. I can't reiterate enough how risky and challenging this road can be, but as you've also read from our success stories, the rewards are totally worth it.



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8 The Basics of Financial Management

Kathy Denise Dixon, FAIA, NOMA

Running an architecture firm or any business for that matter, would require some understanding of the financial aspects of entrepreneurship. This is what business owners often fail to consider in all the anticipation of starting a new venture. For instance, not many architects realize that they would also need to have an active hand in managing the firm's finances until the accounting gets a little too overwhelming.

Most founders start off with the thought that they're starting *small* anyway, so there's really no need to be overly concerned with the monetary aspect of things. For as long as money comes in and the bills are paid, it's all good, right? Well, not exactly. Nowhere does it say that a two-man business does not need to keep track of finances. On the contrary, small firms have to take into account even the most minor expenses because the state of their finances would form the basis for determining if they're actually doing good business.

One thing worth considering also is that small firms won't stay that way. Or at least that's what most principal architects would work for—to grow as a firm. There's always the expectation that current projects could be parlayed into bigger ones, and that more clients would be added to the existing base as a result of your marketing and networking efforts.

In addition, there are also the nontraditional profit centers that we discussed in [Chapter 5](#): Setting up a website, adding a product line, or taking on a new project in a related discipline. While all these are significant sources for supplementary revenue, they also represent additional numbers that you need to input into your transactions, in order to have overall results that can help you make smarter business decisions moving forward.

The Importance of Financial Statements

So often, we hear of business owners and founding/managing partners of a firm say that they don't have enough time to exhaustively review financial documents, and that's perfectly understandable. But as CEO, CFO, or the designated "money guy" in your 3-person firm, you don't actually need to pore over every receipt or every item that goes into your financial reports. That's what accountants, bookkeepers, and software systems are for, given that they are all reliable.

You do, however, need to keep a watchful eye on the critical figures that would show the overall financial health and performance of your firm, and this is where financial statements are most useful. Financial statements are summarized reports of the company's financial transactions for a specific period of time, providing executives with a clear picture of how the company's operations are doing. Beyond monitoring financial health however, having accurate and timely financial statements also provide added benefits to the firm. Here are five significant reasons why they are important:

- **Supports your credit application.** Practically all sources of borrowed capital such as banks and finance companies require up-to-date financial statements to evaluate a loan application. In most cases, audited financial statements (and not just in-house or internally prepared statements) are required of business loan applicants.
- **Shows proof of your financial success.** A fancy, fully-staffed office may be a good indicator of a firm's thriving business. But nothing shows more concrete evidence of profitability than a healthy bottom line indicated in the income statement. Good results in your financial statements would reassure investors, partners, and even potential clients that you are running a legitimate and profitable operation.
- **Facilitates preparation of income tax.** Keeping financial statements updated on a regular basis ensures that your firm's necessary financial information is already organized in preparation for tax season. This would relieve you and your accountant of the stresses of lastminute or late filing and avoid the penalties for such.
- **Ensures more timely payments.** Two vital financial documents are the accounts receivable and accounts payable reports. The accounts receivable report ensures that clients are billed on time,

thereby also increasing the chances of prompt payments from them and improving your cash flow. On the other hand, the accounts payables statement facilitates timely payments to your suppliers, vendors, or lessor, maintaining your good credit standing with them.

- **Aids in better decision making.** Having a good handle on your firm's finances allows you to make informed decisions. It serves as a roadmap on how you can move forward with the business: Whether you're spending too much on certain expense items, whether you are plowing enough money back into your business, or whether you need to approach more investors. The financial data/figures that you need in order to resolve these issues are all found in the financial statements.

Key Financial Metrics: What to Know and Why

Architects are trained for creating solutions using design, and not for balancing debits and credits. But the good thing is, understanding your company's finances is not rocket science. Plus, when you review financial reports periodically, finding the numbers that really matter will only get easier. Now regardless of a firm's size, there are a number of financial reports that architect—owners or managing partners need to review on a regular basis. The five most important ones are:

- *Income statement.* This report takes into account the company's total revenue and operating expenses for a certain time period, usually 1 month, and indicates the resulting profit—or loss—the firm has made within that given time. Also called, the Profit and Loss Statement, Statement of Income and Expense, or Statement of Earnings, the Income Statement is the most tangible measurement of the success of a business.

While I would recommend that you review the Income Statement on a monthly basis, it can also be generated on a quarterly, 6-month, or annual basis. This allows you to evaluate the impact of expenses over your revenue for a longer term, giving room for significant adjustments and more realistic planning.

- *Balance sheet.* The Balance Sheet shows the overall financial snapshot of a business for a specific day. It is represented by the accounting equation $\text{Assets} = \text{Liabilities} + \text{Equity}$. As a financial report, it provides a detailed listing for each section. The assets

section includes all types of assets the firm owns—cash, accounts receivable, inventory, investments, fixtures and equipment, prepaid expenses, and others. The liabilities section, on the other hand, covers all of the company's monetary obligations such as loans, accounts payables, taxes payable, credit card balances, and others.

The most important information you can glean from this report is found on the last portion, the equity or net worth—the firm's value on paper. Based on the equation given above, the equity is computed as the difference between the company's total assets and total liabilities, and represents the owner's claim on the assets of the business. A positive net worth is a good indication because it tells you that you own more than you owe. A negative net worth or equity however, implies that your liabilities outweigh your assets, meaning, the firm is not earning enough to sustain its debts.

| CLASSY COMPANY Balance Sheet December 31, 2013 | | | | |
|--|------------------|------------------------------|-------------------------|--|
| Assets | | Liabilities | | |
| Current assets | | | | Current liabilities |
| Cash | \$100,000 | Accounts payable | | \$80,000 |
| Short-term investments | 50,000 | Salaries payable | | 10,000 |
| Accounts receivable | 75,000 | Interest payable | | 15,000 |
| Inventories | 200,000 | Taxes payable | | 5,000 |
| Prepaid insurance | <u>25,000</u> | \$450,000 | Current portion of note | <u>40,000</u> \$150,000 |
| Long-term investments | | | | Long-term liabilities |
| Stock investments | \$40,000 | Notes payable | | \$110,000 |
| Cash value of insurance | <u>10,000</u> | Bank loan | | 35,000 |
| | 50,000 | Mortgage obligation | | 75,000 |
| Property, plant & equipment | | | | Deferred income taxes <u>80,000</u> <u>300,000</u> |
| Land | \$25,000 | Total liabilities | | \$450,000 |
| Buildings and equipment | \$150,000 | | | |
| Less: Accum. depreciation | <u>(50,000)</u> | 100,000 | 125,000 | |
| Intangible assets | | | | |
| Goodwill | 275,000 | Stockholders' equity | | |
| Other assets | | Capital stock | | \$300,000 |
| Receivable from employee | <u>10,000</u> | Retained earnings | | <u>160,000</u> |
| Total assets | <u>\$910,000</u> | Total stockholders' equity | | <u>460,000</u> |
| | | Total liabilities and equity | | <u>\$910,000</u> |

Figure 8.1 EntreArchitect, 2013. Sample Balance Sheet.

Screen Capture from the Article “Financial Statement for Architects.” Retrieved from <http://entrearchitect.com/2013/08/18/financial-statements-for-architects/>

- *Cash flow statement.* This report focuses on the amount of money coming in the business (*cash inflows*) and that going out (*cash outflows*). The Cash Flow Statement is especially useful to smaller firms because it helps them assess their short-term viability particularly their capability to pay bills and make new purchases. Unlike large companies that have easier access to credit, small businesses rely primarily on cash payments.

Cash inflows include cash sales and collection from accounts receivables, while operating expenses paid, equipment purchases, and other payments are counted as cash outflows. A good indication that your operations are in the black is when your cash inflows exceed that of your operating costs (outflows). If your cash outflows are greater than your inflows, then it's time to revisit your list of expenses and evaluate your income-generating efforts. And do keep in mind that if you're a small business, cash is your lifeblood. Running out of cash could sound the death knell for your firm.

- *Accounts receivable report.* This report is a simple listing of all clients or customers who still owe your firm. The document usually includes the names of the clients, the billing invoices, the outstanding balances, and the aging of these accounts; hence it is also referred to as the Accounts Receivables Aging Report. Accounts receivables are often listed in 30-day “buckets,” where the leftmost column indicates invoices that are 30 days old or less, the next column shows invoices aged 31–60 days, and so on. The report could also include a contact information for the customers listed since this is often used as a collection tool.

An architecture firm would find A/R reports very helpful because we rely heavily on billing clients and having payments made over time in various stages of a project. Running A/R Aging Reports regularly helps you easily identify clients who have substantial balances, and more importantly, those who are delinquent payers. When reviewing your A/R Aging Report, always remembers the number one rule in debt collection—“*The longer a debt is owed, the less likely you are to be able to collect it.*”

- *Accounts payable report.* The Accounts Payable Report provides a list of the people, vendors, or institutions whom the firm owes money to. Similar to the Accounts Receivable Report, the A/P Statement also follows a familiar format that includes the names, amount owed, and the aging of these accounts. The report is usually

produced monthly to reflect both the short-term payables (monthly operating expenses), and the monthly payments owed to recurring debts (such as long-term bank loans).

Accounts payables for architecture firms may also include consultancy services in specific projects where the services of professionals in a related field (e.g., engineer, interior design) are required. In cases like this, the consultant's services are engaged under the agreement that he or she will be paid only when the client pays. The consultant's fees therefore will have no aging as an item on the Accounts Payable Report, but should be payable immediately when the client's payment comes through.

A Look at Project Management Software for Architects

Knowing the vital financial metrics that would keep you abreast of the firm's performance is one thing. But before you can even get to those reports, they would have to be generated first—and accurately at that. In the same way that every line on a floor plan should be drawn with the exact measurement and in the right location, financial data and project information should also be inputted correctly. Then, these should be properly consolidated so that they make sense for those who review the reports. You don't just need a good bookkeeper for that. You also need a great financial and project management software.

There are so many accounting and project management tools available today. This only goes to show that the era of paper lists is long gone, and people have smartened up to use their time more efficiently. I actually did a quick Google search and came up with a staggering 29 million results! Not all of these are suitable for architecture firms of course, but finding the right one can make managing your firm much easier.

The most comprehensive software packages out there do practically everything: Generate financial reports, track budgets, monitor client billing and create invoices, allow for collaboration with staff and other professionals on a project, record employee time, manage payroll, and many more. You don't have to have all these features because it really depends on the size of your firm and the way it is structured. But what's certain is that a reliable accounting/project management product could help you achieve both productivity and profitability, and everything else in between.

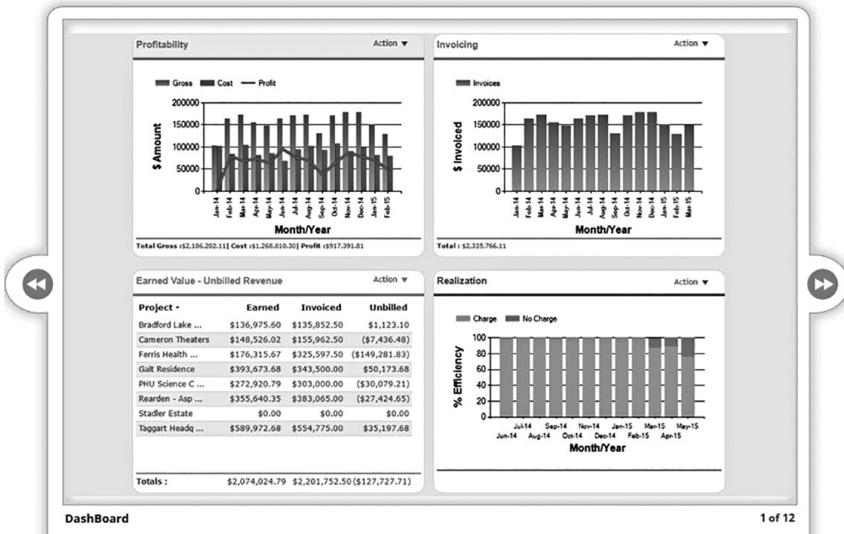


Figure 8.2 Sample Dashboard of a Project Management Software.

Screen Capture from www.archiofficeonline.com/ScreenShots.asp

Here are some project management software solutions that would be a good fit for architecture firms:

- **Deltek Vision.** A well-known enterprise software in the project management space that caters to professional services firms and utilized by many A&E companies. Vision's price point may be prohibitive for smaller businesses, but its comprehensive features would fit with large firms looking for a complete solution.
- **Deltek Ajera.** Formerly Ajera by Axium until it was acquired by Deltek, this software presents itself as a powerful financial management solution that was designed with A&E firms in mind. Software reviews classify it as a small to mid-sized business system that may show limitations when used for complex projects and organizations.
- **BillQuick.** While BillQuick does not identify itself as a "for architects only" (or even A&E companies) software, its business accounting and project management features are also a good match for architecture firms.
- **ArchOffice.** A project management and time-tracking software that prides itself on having been "*created by architects, for architects*." Users find it easy to use and offers features that meet their needs—basically, one of the most ideal solutions for smaller firms.

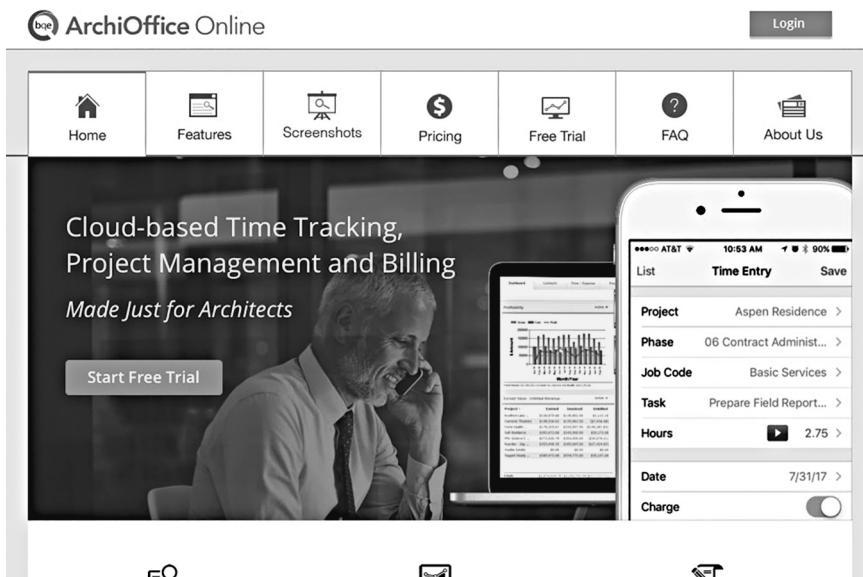


Figure 8.3 ArchiOffice Home Screen.

Screen Capture from www.archiofficeonline.com

- **WorkflowMax.** Another solution that nicely fits as a business tool for architecture firms, although it caters to other industries too. Still, they claim to have the all-in-one project management software for architects, and their website even features a section outlining how each member of the architecture team can make use of WorkflowMax.

Understanding Professional Fees and Fee Structures

As many of you know already or are bound to find out soon, being the architect-owner or a founding partner of an architecture firm is a lot different from the uncomplicated reality of simply being one of the architects in a firm. Aside from having to learn the basics of financial management, another fundamental trait you need to develop is becoming a savvy business person. You may ask: Isn't that the same as knowing the business or financial aspects of the firm? Well, yes this has something to do with money matters, but more along the lines of revenue generation.

To illustrate what I mean, let me share with you this is one good piece of advice I've received when I started my firm, and which I've found to be so true in my experience: Be confident when asking for fees that reflect the quality of service you are providing. Given that customers don't have unlimited budgets, the price will always matter in any negotiation. But the confidence you have in your services will go a long way in convincing potential clients that they are dealing with an architecture firm that knows its business. And while it's also considered a good marketing strategy to offer moderately-priced services when starting out, and even throwing in a "freebie" or two (more on that later), you should work out a minimum fee with your partner/s that is commensurate with the level of service you are confident you can provide.

Determining the right pricing for architectural services is always a tricky process because of the many variable factors that could materialize in a project. For instance, you need to consider site constraints, building complexity, environmental factors, and customer time frame are all considered when calculating fees.

That said, here are six ways that architects charge for professional services:

- **Hourly.** The hourly rate is quite straightforward: Clients are billed for every hour the architect works. In a large firm, schedule of the hourly rates of the different level staff who will be working on the project should be provided to the client. But while this system is easy enough for the client to understand, it requires a major degree of trust between the two contracting parties. Without it, questions on what the architect is able to accomplish for those hours he or she worked will always crop up, and the firm will always need to have a detailed explanation ready.

If you want to avoid this level of scrutiny, recommend this billing method only to clients who know exactly what they want and can decide quickly, or for some reason, prefer this method. In general, people don't want to be shocked with a hefty bill when presented with the invoice.

- **Hourly, not to exceed this amount.** One way to circumvent a major concern raised in a "pure" hourly rate, that is, surprising clients when billing time comes around, is to include a "not to exceed this amount" clause in the contract. This establishes a

maximum limit on the amount that the firm can charge the client, while leaving the assigned architect to still work on an hourly basis.

However, such arrangement will only work if the scope of the project has already been established and both parties already have an idea of the total construction costs. The maximum limit can then be determined using the percentage of construction cost method. If you're wondering why they just don't decide straight away on the percentage method, it's because the client may be hoping to realize some savings if the design process goes more efficiently than usual.

- **Fixed fee or lump sum.** In a fixed fee billing method, the firm sets a fixed amount that they will charge for the project. Clients are partial to this method because it eliminates any unpleasant surprises (for them) in the future and allows them to plan their finances accordingly. But setting the right fee for a project is a challenge for the architect if the details, scope, and time frame of the project have not been completely established yet.

A fixed fee contract is therefore most beneficial to your firm if you have done a similar project in the past and you know that a certain fee range would already give you a decent revenue. Or, if you're dealing with very specific, small-scale projects like adding a garage or removing a wall to expand a room. If a fixed or lump sum method is agreed upon, the client will pay the contract amount over the course of the project.

- **Percentage of construction costs.** The method of calculating the architect's fee as percentage of construction costs is often used for larger projects, and is usually estimated to be within the range of 8–15 percent. While many architects prefer this method because it allows them higher fees as the scope increases, the percentage approach isn't without its challenges. One of things that clients can't reconcile with in this method is that *architects actually get to be paid a fraction of what the building costs*. Well, that's not exactly true. As a general rule, construction costs are only calculated within the scope where architectural coordination is required.

But this is grey area as well and architects could even be charging less than they should. For instance, architects also spend time coordinating with other professionals (interior designers, pool and landscape designers) to obtain information needed for the building documents and construction requirements, and yet we don't

include this in our fee because technically, it's not within our scope. As for clients who balk at the increase in our fees but opt for granite kitchen countertops and marble flooring, they need to be reminded that the fees merely reflect the level of quality and attention to detail that should go into the construction. At the end of the day though, both parties should keep in mind that clients always have the last say in what expenses are given a go, and the architect's fee is simply a percentage of those costs.

- **Cost per square foot of construction.** The fees in the cost-per-square-foot approach are calculated by determining what the entire project's square footage is and then multiplying this by a fixed fee per square foot. The use of this billing method may be practiced in commercial building constructions, but it isn't a good fit for residential projects where there are more variables to consider and none of these elements remotely relate to the cost per square foot.

Even in commercial architecture however, it's hard to determine the right fee per square foot because of the complexity of the design process (including the production of documents that facilitate permit approval), and the possibility that the project could get more complicated. To avoid quoting a fee that could later turn out unprofitable for your firm, use this billing arrangement only when you've previously worked on a similar project and can easily determine a fee that's appropriate for your services.

- **Combination fee structure.** Architects may opt for the combination fee structure method, or utilizing two of the billing methods discussed above. This hybrid arrangement works quite well when clients have not firmly decided on what they want (which happens often), or when the scope of the project increases or changes (which happens often, too). In the first scenario, the early phase which includes consultation meetings and design development process are charged on an hourly basis.

With the knowledge that the meter is running, clients, unsurprisingly, are able to arrive at decisions much faster. Architects, on the other hand, are secured of their income because they are paid for every hour worked. It's a win-win situation. When the project moves to the documentation and construction phase with a more definite scope, then the fixed fee/lump sum method or percentage of construction costs approach can be utilized. Now when a client

originally billed using the percentage of construction method decides to expand the project mid-process (like in the second scenario I previously described), any additional services can be billed on the architect's hourly rate or under a fixed fee structure provided the additions or changes are not major ones.

How to Deal with Scope Creep

Scope creep is the continuous growth or change of the scope of the project until it goes far beyond its original intent. The term is not unique for the architecture industry, but since we earn a living out of working on projects, we know it all too well. It is one of the reasons why many architecture firms are not as profitable as they should be.

As a process, scope creep may start off rather harmlessly with a client adding a small request here and there, but if you're not careful enough, it could become a major headache. There are two probable reasons why a client would increase the scope of a project—and then increase it some more: Either he or she (client) thinks that the additional work is actually part of the original contract, or he or she simply doesn't realize that the extra work also requires extra payment.

While entertaining a few changes in the original scope of the project may be par for the course, there are still many ways that you can prevent scope creep from taking over your project, and ultimately, your profits.

- Have a clear understanding of what your client wants to achieve at the outset. What he says could simply be "*I want to have window placed there,*" when he really means "*I want this room to be bathed in sunlight.*"
- Make sure that the scope of the project produces the desired outcomes that the client envisions. As an expert in this field, it is your job to ensure that the design or construction plan/solution you arrive at is the fitting answer to your client's need.
- Define the scope of the works clearly—what's included and what's not. In many cases, scope creep is simply the result of poorly defined scope and miscommunication.
- Explain your fee structure thoroughly and define what services are to be expected from you with the fee that you are asking for. While you may later choose to absorb some minor revisions, it is best

to let clients know that any changes in the scope outside what has been originally defined would be billed separately.

- Have everything in writing. And don't be satisfied with having the client's signature on the contract (although this will obviously do for legal purposes), but have them understand exactly what it is they are agreeing to.

A Note on Free Services

Architects are not above letting the client get away with a free service or two, just to make them happy. Sometimes this sets a precedent for scope creep which we would want to avoid at all costs, but when managed well, that extra service could secure you a repeat client. But offering uncompensated services should be handled in a manner that lets you capitalize on that gesture.

It starts when a client requests you to deliver additional work that it is not included in the original project scope. When this happens, call the client's attention to it. If you feel that it is worth waiving the fee for this one time, then by all means go with that instinct. But let the client acknowledge that free service, and let them know in no uncertain terms that subsequent services that are beyond the scope will be charged accordingly. This way, this one instance won't set an undesirable precedent.

Here's one last thing on providing uncompensated services: Carefully consider the impact of that seemingly *minor* change that you are willing to do for free. One small revision in the construction documents may not seem like much and could just take an hour, maybe two. But when that change has a ripple effect to other portions of the plan, that giveaway may have cost you much more than you bargained for.

The Value of Architectural Contracts

This may be hard to imagine now considering how exacting the business landscape is, but there was actually a time when plans were drawn and buildings were built just on the basis of handshakes. I don't know how those companies managed to get projects completed or make any profits by entering into verbal agreements or handshake deals, but fortunately, both clients and professionals have become wiser now: Anything agreed on verbally should be put in writing.

The Importance of a Written Contract

An architectural contract is a legal document between the client and the architect that clearly states the terms of the project, establishes the obligations of each party, and details the expectations for time frames and payments. A contract ensures that all parties involved have come to the same understanding of the project from the very start.

The key difference between an oral contract and a written one is that in the latter arrangement, the terms are clearly defined—the scope, the responsibilities of the contracting parties, their expectations, and the risks that each side is taking on. Nothing is left unambiguous.

In the case of a verbal deal, all these may still be discussed but there is no guarantee that these terms will continue to stand in the future. For one, either the client's or the firm's recollection of the terms could change over time. This is particularly true when disputes enter the picture. Whether intentionally or not, one or both versions of the "contract" could change because people would always want to put themselves at an advantage.

Another benefit of having a contract is it serves as a roadmap of the project implementation. The stages of the work are laid out at the outset. The issue of trust doesn't come up (*although you would always want to trust your client and he/she, you, because otherwise, why work with him/her at all?*) because everything is executed according to what the contract describes from start to finish. For instance, take the issue of scope creep which we discussed in an earlier section of this chapter. If all the terms were set in a written contract, there would be no question of what is included or what's not, making it easier for you to say no.

Now just because you have a contract on hand does not mean that you're going to use it every time things take a wrong turn. On the one hand, it's standard procedure for professionals to secure a clear, written contract that would protect their business interests and help them avoid any legal headaches down the road. But then again, you also truly hope that the day would never come when you would have to take out that document to settle (perhaps, *argue*) a matter with your client. However, if it does get to *that* point, it certainly helps to know—both for you and your client—that there is a written agreement that you can go back to.

In Summary

The moment you decided to put yourself squarely in the business of architecture, you've practically signed yourself up to a life of looking at numbers and doing quick calculations, all while doing design work. But don't be daunted by the challenge of being well-versed in matters of finance and anything else that has to do with keeping your firm profitable. After all, you are an architect; a problem solver. The question of how to run a successful business is a problem you would gladly create a solution for.



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9 The Right Fit: Hiring People and Finding Clients

Kathy Denise Dixon, FAIA, NOMA

It is often said that people are the most valuable asset in any organization. While this is true in so many businesses, it is never more evident than in the architecture firm. Many architectural practices start out with few resources to their name, and are rarely able to acquire property until they have achieved some measure of success. That's why for a good number of these firms, the skill and talent of their employees are what keeps them competitive. Supported by effective leadership, great employees can also propel the growth of the company. This makes the process of acquiring talent very crucial to the firm.

When you and your partners get hold of enough design projects that will merit the hiring of more people, this could signify the turning point of your business. The anticipation of an expanding firm can be very exciting, but finding the people who will help you grow the business can also be a big challenge. Hire right, and you're practically set for life. Make a bad recruitment decision, and you'll set your firm two, maybe, ten steps back.

Balancing Skill and Company Fit

In any hiring process, the first thing that recruitment officers review is the candidate's resume. For an architecture firm, this could include the potential recruit's educational background, internship, previous work experience, and portfolio. Now the question is: When you find someone who has the best qualifications and brings the right skillset, is it time to hire? It would seem like a no-brainer to answer "yes" to this question. After all, who would say no to a good candidate whose talents you could use in your firm? But the thing is, you're hiring *the person* and not just his or her skills.

Many business owners and HR managers in the past have made the mistake of recruiting people based solely on their professional skills.

But they found out the hard way that talent alone does not make the right hire. It has to be a balance of *performance capability*—a person's skill, and *culture fit*—his or her personal traits. The importance of both functionality and fit when bringing new employees on board is getting more focus in today's business landscape. This is because regardless of the industry you belong to, so much of work now relies heavily on technology, which is constantly changing, and collaborative effort, which requires people skills.

While you want the new hire to have the skills needed to do the assigned tasks, you also want him or her to be able to adapt to changes in processes and tools later on. Equally critical is how you think that person will get along with the rest of the team because no matter how good he or she is, collaborating will be difficult if he or she doesn't fit well with the other employees. A tense, stressful workplace is not exactly the ideal environment for employees to be able to do their best and deliver results.

Hiring the right people may get more challenging the bigger the firm grows. But while you're still developing your culture and identity as a 4- or 5-person team, the chances of finding a good fit are higher because there are less people to consider. Get candidates to talk not only about their work, but also about their expectations of the firm and how all these align with their life goals. By having a complete picture of a person's qualifications as well as personality traits, you'll find success in hiring the right individual who shares the same goals, values, and work ethics as you and your partners.

8 Hiring Guidelines for Architecture Firms

With the end goal of hiring for both fit and skill, going through that recruitment process is not an easy task. Whatever your firm size, there's no doubt that any hiring activity would attract many interested candidates. Here are useful points to keep in mind when looking to hire new staff:

- **Determine if they are really interested in the job and not just trying to see what's out there.** There are applicants who interview with firms just to get a feel of the opportunities available in the market. While there's certainly nothing wrong with keeping one's options open, evaluating a potential candidate who already has a pending offer, or is setting his/her eyes on a certain firm type

that's different from your own would make you less inclined to put that candidate on your shortlist.

- **Review the applicant's resume and portfolio closely.** Aside from checking the individual's educational background and work experience, one thing you should also look out for is how well put together the resume is. Do you find any grammatical, spelling, or typographical errors? Is the information organized properly? These things say a lot about that person's thoroughness and communication skills. Now whether that is a deal breaker for you, is entirely at your discretion.
- **Review his or her portfolio as well.** Being in the design practice, it's important that the portfolio should also be a good reflection of the professional in the industry. For many senior architects, it isn't so much having a lot of work included in the portfolio but having a good selection of projects that showcase the applicant's breadth of experience.
- **Check an applicant's references.** It may not be possible to verify every reference of every applicant, so at the very least, do a check of those applicants who you feel could go beyond the early stages of the hiring process. Comments or recommendations from a former employer could offer very useful information so make this a priority over personal references. As much as possible, do not tender a job offer unless you've done your reference checking.
- **Mix in some questions that will show more of his or her personality.** Finding the right person could involve delving more into the personality of a potential team member. Questions about previous employment and experience are already a given but letting the interviewee share about the other aspects of his or her life—interests, family life, hobbies, etc.—could give you as much valuable insight about that person's fit with your firm as a portfolio would.
- **Evaluate how prepared he or she is for the interview.** It is often disappointing to talk to applicants who show up without even having bothered to read the job ad you posted or to visit the company website. On the flip side, it is always a good sign when the person who sits for the interview has fully thought about the job responsibility that he or she could be taking on, and can easily field questions related to it.
- **Get to know the applicant's expectations too.** The recruitment process should be a two-way street. While you have your

chance to ask applicant questions and assess them for suitability, the applicant too, should be given the opportunity to raise concerns, voice expectations, and negotiate for his or her compensation package. While you may not be able to offer the deal he or she has in mind, it's always good for both parties to have a starting point to have a better chance at negotiating.

- **Be flexible with your “offer”.** When you feel that a candidate is a great match for your firm, but the starting salary you can offer is below his or her expectations, be willing to compromise on “currency.” Compensation packages don’t have to be solely about salary. Try to negotiate in terms of other benefits: Work hours, sick days, vacation leaves, bonuses, and possible stock option.

Recruiting an architect or staff member who is a less-than-ideal fit for your growing firm can cost you more than you know. Like I’ve said in [Chapter 3](#), take your time when hiring. Try to see as many candidates as you can so you will have a bigger pool of individuals to choose from. Lastly, keep in mind that getting a new employee is not an exact science, and there can never be a perfect candidate. Set the criteria for hiring but be ready to compromise on some aspects for as long as most of the pieces fit.

More Clients Mean More Business

People are indeed the building blocks of a successful architecture firm. On the one side, you and your partners should have a great team behind you. On the other side, you should be working with clients who are happy with your work and affirm your belief that you did good in becoming an architect. But while the former—*having a good team*—is well within your control, the latter—*having ideal clients*—is something that requires a lot of effort, and even then, there are no guarantees.

In the real world, architects have to deal with a host of customer-related issues: Clients who demand much more than what they are willing to pay for, scope creep, long outstanding invoices, and others. However, this should not stop your firm from taking in more projects every chance you get. Regardless of which client brings the opportunity, the fact is that a design project is the firm’s primary source of revenue. The more work available, the better for the practice, right? But if we’re working on the framework that there’s also a right fit when it comes to projects, the question for architects now is this:

Should you take in every potential client and project?

The best possible answer to this question is no. Ideally, firms should have the prerogative to pick design projects that are within their field of specialization, and to work with clients who are able to recognize the value in architectural services and are willing to pay the right price for such value. But in reality, only a handful of firms, have such luxury of being able to say *no*.

For most small practices, rejecting work or even just failing to pursue a potential project would translate to a lost opportunity which could have brought in more than a few months' worth of revenue. If having the practice survive is the primary goal, then campaigning for more clients who bring in business takes priority over doing the projects that you've always wanted to do. Once you've gained more credibility in your brand and identity as a firm (see *more about branding in Chapter 10*), then you can build a niche practice that draws in projects which could be a better fit for your firm.

Who Is the Right Client?

Now as for having the *ideal* client for your firm, here's something to think about: Perhaps it's not so much about finding the right client, as it is about turning an existing client into one who is right for your firm. There's a foolproof two-step formula for this: Build trust in your architect-client relationship, and then maintain that trust for the long-term.

More often than not, clients are not exactly what we would call "good" clients because there's only so much they know about our services and the value we bring to the table. So first and foremost, architects have to believe in the value that they offer to the client. If you are not convinced of this yourself, then it's no wonder that clients don't think as highly of your services as they should.

Once you've established your role as a creator of value, it's essential that you are able to spell out this value to them in a language that they understand. How much does the client stand to save with your design? What solution have you created for the problem that the client has presented to you? If you are able to communicate all these to your client, then you're well on your way to building that trust and solidifying your business relationship.

But before you can think about building relationships, let's get those projects into our firms first. So, clients . . . *Where do you find them?*

If there were a straightforward answer to this question, then every firm would have all the clients they need and winning new projects wouldn't be a problem. But alas, clients can be elusive. There is the age old method of responding to Requests for Proposals as discussed in [Chapter 11](#), but are there other places to look for clients? Certainly, good clients can be right under your nose at the places you frequent . . . your children's school, doctor's office, alumni chapter meeting, etc. Sharing that you are an architect is acceptable as long as you don't overly market yourself in social settings. Someone in the crowd always knows someone else who is looking for an architect. Start looking in the obvious places.

Clients can also be found in organizations that represent particular markets. For example, if you design K-12 educational facilities, you should be attending the event that the professional organization for public school officials holds every year. Make yourself known by participating, sponsoring, advertising etc. in the places where your clients spend their time. Ideally, they will appreciate the efforts you are making to reach them. The same can be done for organizations whose membership consists of museums, churches, restaurants, developers, etc. Do some simple research and find out where your clients tend to hang-out . . . that is where you should hang-out as well. In the next chapter, we discuss more ideas about networking and marketing for architecture firms.

In Summary

Of the many challenges in managing an architecture firm, finding people who can contribute significantly to growth of the organization is perhaps one of the biggest. Balancing the need for skills with the importance of culture fit is of utmost consideration when getting more staff on board. In the same manner, firms also have to find the right compromise between getting more projects to generate additional revenue and choosing only projects that would better fit the firm and the architects. Regardless of what you're working on however, communicating value to the client is essential to the success of your business relationship and the project as a whole. Finding the right clients will take strategic thinking and effort, but it can be done.

10 The Architect's Plan for Branding and Marketing

Kathy Denise Dixon, FAIA, NOMA

Nothing sounds better to a small business owner's ears than the constant *cha-ching* of the cash register ringing in more sales. Unfortunately, the scenario of customers lining up outside the door is so far-off from the reality of the architectural practice. The constant worry of where the next project will be coming from is one that has kept architect-owners up at night, particularly for small firms which comprise a good majority of the architecture firms in the US.

The Cyclical Nature of Architectural Work

Going through a feast and famine cycle is not uncommon in this industry because of the nature of architectural services. Cash flows in and bills get paid when the firm is working on a project; that's *feast*. But when that project winds down and it's time to start looking for a new one to work on, the *famine* period starts. For a new practice, and even for larger, more established firms, the business' fortunes rise and fall with their ability to win design projects, and the capability to pace the work so as to maximize time and manpower.

A good measure of firm success is when there is always a healthy backlog of work waiting to be acted on. Even better, the firm's goal should be to generate steady income by always maintaining a balanced cycle of working on a project and actively pursuing new ones. The entire process of landing a project—from initial client meetings to negotiations to contract finalization to actual project commencement (*when you can start billing regularly*) could take anywhere from 3 to 6 months. That's why it's important that there should be a number of projects in various stages of completion or negotiation to ensure that the firm is never without work.

So how do architecture firms attract more clients so that they always have a project or two lined up? Just ask any business consultant,

corporate executive, or your small business owner about what can get customers to come knocking, and they would all tell the same answer: Marketing. But then again, it's difficult to plan a marketing strategy around a business that has yet to establish its brand.

First Branding, Then Marketing

Branding, in its simplest definition, is the identity of a product or service. It could be the name, logo, design, tagline, or a combination of all these that makes you—and what you offer—distinct from others. Marketing, on the other hand, is the promotion of that product or service to the consumer. So branding first, then marketing. It's best to get that out of the way because some entrepreneurs are often too eager to get on with marketing activities (to generate sales quickly) without having first reconciled how they want to be identified as a business.

While there's no rule that says you can't begin marketing your product or service if you haven't developed your brand, it's difficult to put out a marketing message because you still don't know how people can differentiate you from other providers. What's your unique selling proposition? The problem with not knowing what defines you as a professional services firm is that all that's left for you is to compete against other service providers at the price level. But the you-go-low-I'll-go-lower pricing strategy is not how you do business. At least not when you want to be profitable.

MindFire President Lynn Manternach offers one of the best differentiations for branding and marketing that I've come across:

Branding is why. Marketing is how.

Branding is long-term. Marketing is short-term.

Branding is big-picture. Marketing is focused and single-minded.

Branding is strategic. Marketing is tactical.

Branding begins inside your own organization. Marketing begins with the consumer.

(L. Manternach, 2015)

Are all these applicable to the architecture firm? Definitely. It may be easy to go around and introduce yourself as an architect to expand your network. But it doesn't stop there. People will want to know more about what area your firm specializes in, or what type of clients you build for. Knowing what values you uphold as a firm would help

them assess whether your practice would be a good fit for their needs. But you won't be able to convey your message in the right way without first developing your brand.

What's in a Brand?

Creating a successful brand for your architecture practice is more than just having your firm's name and your unique logo printed out on business cards. While these are all essential representations of your brand, this is not the entirety of what your firm stands for. Here's how to develop your brand as an architecture firm:

- **Identify your niche.** Being a generalist could have its advantages. It means you can accept practically any work that comes your way. It means being able to do anything for any client. While this may initially sound like a good marketing strategy for getting new projects, it could also send out the message that you're not really particularly good in any area. People who are looking for architectural services are looking for a solution to their particular need. It follows then that a specialist in that field would inspire more confidence than any generalist would. Does that mean you should say no to other work that comes along even if projects are scarce? Of course not. But constantly honing your expertise in that chosen niche and continuously aiming for clients and projects within that field, will eventually pay off, creating a more strategic, stable, and profitable operations that's built for the long term.
- **Develop your name, logo, and tagline.** This is the easy part and one which you may have already prepared for as soon as you started your practice. Brand recognition starts with the name and logo, and while these may not be as important for professional services firms (as compared to consumer retail products, for example), it's still well worth remembering that your name, logo, and tagline should reflect the personality of your firm.
- **Develop your position statement.** Not many firms bother to clearly define their brand with a position statement. That means by crafting one, you automatically differentiate your firm from so many others out there. There are four basic things that go into a position statement: Who you are, what you do, for whom you do it, and to what benefit. It usually doesn't go beyond three to four sentences but however brief, your position statement should

be able to express who you are as a firm and the value you give to clients.

- **Develop your website.** A website is a very important tool for both branding and marketing. Your firm's website can tell the story behind how your practice was founded, explains the type of work you do, gives insight into your creative process, and expresses how your architectural solutions can make an impact on your clients and the larger community. In short, it's your brand position in more than four sentences.

Now beyond delivering your brand message, a website can also double as one of your most effective marketing tools. The best way to convince prospective client to give your firm a shot is to refrain from a hard sell. Instead, let them see for themselves what your firm can do. Your website should provide content that readers will find useful, and convince them that you're not just selling services but offering valuable information too.

Marketing Your Firm's Way to Success

Branding is mostly about your firm: Your services, your values, and your edge over others. Marketing is now getting that message out to those who may have need of your services. This is a concept that's more familiar to us. Or so, we think.

Marketing, in fact, is fast evolving. As lifestyles change, competition intensifies, and media expansion continues, marketing strategies have also adapted. And with the continued rise of online platforms, its evolution has never been more pronounced. Where before, companies would simply take out ads in the newspaper or buy TV airtime and call it a day, marketing now is less clear-cut and more complex.

Architecture firms, however, actually still stand to benefit from all these changes. Even without a huge marketing budget or a dedicated team or person for it, you can still get the word out using smart, relevant, and strategic marketing. A good plan would encompass letting others know about your firm, creating interest in your architecture services, and highlighting the value that you can offer.

There many different channels you can use to market your firm. In this internet era, a sound marketing approach to use is one that is two-fold:

- First, utilize tested and proven marketing strategies that continue to be effective today; and
- Second, explore and learn the unique marketing tools of these times.

Even breaking down your strategy into a dual approach, this is still a very broad plan. So let's break it down some more, starting with the traditional methods of marketing.

Building Connections Is Still Key

In a world where a lot of networking gets done through the internet, establishing relationships through conventional means may seem too old school. But this doesn't make them any less relevant. After all, you rarely find people who make crucial decisions about building designs after simply seeing an ad or coming across an interesting blog post. So getting your name out there by actually meeting individuals face to face may still be one of the most effective ways to attract new clients. Architects can connect with other people—potential customers—in a variety of ways:

- **By networking.** Networking isn't something that you can just engage in when you're in work mode. For instance, attending the groundbreaking ceremony of a building your firm designed is definitely considered official business where you may need to have your calling cards at the ready. But what about if you're on a two-hour flight seated beside an old acquaintance? Or mingling with other parents while waiting for a parent-teacher conference to start? While you don't want to come across as an over-eager salesman, I believe people won't think badly of you if you talk about the work you do *when* an opportunity arises. Believe me, people can tell whether you are truly passionate about your design work, or just doing a round of blatant self-promotion. If your sincerity and enthusiasm does come across, they would certainly keep you in mind if a project comes up in the future. Otherwise, those cards of yours could end up at the bottom of the stack. Networking, when done right, could open many doors for you.
- **Through speaking engagements.** As much as possible, never turn down an opportunity to speak in public about architecture, design, and perhaps, your area of specialization. The invitation could

- be for a class lecture, trade conference, panel discussion, business forum, or any other type of public speaking engagement. These opportunities are a great way to market your services, however indirectly, because you have a captured audience already. You never know who could be listening or what services they might need in the near future. And when you leave the impression that you are an expert in your field, your firm can be one of those they'll call first for a design consult.
- **Joining architecture and industry-related organizations.** Forming connections within the industry itself is a good way to meet potential clients, get referrals, or hear of upcoming projects that could be a good fit for your firm profile. For instance, my active involvement and leadership in the National Organization for Minority Architects (NOMA)—from being Chapter Secretary in 2000 to NOMA president in 2012—has paved the way for me to increase my network extensively. It allowed me to meet individuals and connect with organizations that I would never have had the chance to get to know under ordinary circumstances. The relationships I was able to build from that experience also led to many work opportunities for my firm. Projects could also come from other professionals in related fields, such as developers and interior design firms who are looking to partner with an architectural practice on large-scale development.
 - **Through community involvement.** But why limit yourself to industry-related organizations when there are more groups that you can associate with? Community activities, specifically, allow you to meet others while also contributing time and effort to improve your local area. I had a colleague who once got appointed as a Board Member for their homeowners' association. While he initially resisted the idea for lack of time, the position eventually gave him an opportunity to make suggestions as to how they could improve the common areas in their neighborhood, and being the licensed architect that he is, the recommendations were well taken. That involvement led to other residential projects within their area. Other community activities could include doing pro bono work for civic organizations, sitting as board in planning councils, and membership in interest groups or hobby clubs.
 - **Writing articles for local or trade publications.** Contributing to a local paper or industry publications could also boost your name recall as a professional and as a firm. There are so many ways that

you can turn a weekly column in the local paper or even an occasional feature article in a trade magazine into an avenue for giving out valuable information relevant to architecture, firmly establishing yourself as an expert in the field. Keep in mind that with your writing, you have the capability to influence a bigger audience through a paper's steady readership than perhaps a single speaking engagement can.

Marketing in the Digital Age

Building connections through personal interaction is all well and good. But let's face it; we've long been in the era where technology rules and your marketing strategy should reflect the times too. Otherwise, you're missing out on a good chunk of your targeted audience. Online is where the millions of your prospective clients and even your competitors are, and that's where you and your firm should be too.

Remember that website that you should have set up as part of the branding platform? Remember how important it is for your marketing too? Like I said, it all comes together in your website: It presents your name in big bold letters, it shows a bigger, more prominent image of your logo than what a business card could accommodate, it tells your story and showcases your projects, and it gives a consistent look and feel to your visual branding.

Unfortunately, none of these gets shown to the larger audience if they can't get to your page. The challenge then is to bring the people—internet users—to your website. Of the many ways to increase traffic to a website, here are those most applicable to architecture firms:

- **Search engine optimization (SEO).** SEO is the process of boosting a website's visibility in the search engines. For example, if you do a Google search for "architectural services" or "architecture firm in Austin Texas" (if you're based there), does your website make it to the top five? Thought not. Chances are, it won't even be in the first three pages. To optimize your site for better visibility, make sure that your web pages contain the key phrases or search terms that are related to the industry. Another way to improve ranking in organic searches is to add more content to your site in the form of informative blog posts and articles. It also improves your chances to rank for more specific phrases (e.g., how

- to create more space in a small house) rather than broader search terms that have high competition.
- **Participating in forums and Q&A sites.** Recommendations and opinions from professionals are very much welcome in question-and-answer sites like Quora, Yahoo Answers, Fluther, Stack Exchange, and others. You can search for specific categories like architecture or design or building, and give answers to any pending questions under these categories. Then you can leave a link to your site or a specific web page in your site that specifically answers that question.
 - **Guest blogging.** Contributing posts in other websites, preferably those that have traffic, is another way to pull in more users to your site. You write a post that offers valuable *free* information, the website publishes it, and you may include a link to the firm's website in your guest blogger biography at the end. It's essentially an online version of writing for local publications in the traditional marketing methods.
 - **Pay per click (PPC).** While the previous methods involved no costs (except if you count the time spent), a PPC ad campaign like Google Ad Words, involves paying Google to have list ads for your website appear at the top and right side of organic search results. No minimum spending is required and you can cancel anytime. The key is to carefully consider how your ad is worded so that you entice more users to click on it and visit your website.

While all these were considered effective, they were nonetheless, *purely* marketing methods. Now here comes one method that has drastically altered the marketing landscape as we know it—social media marketing.

The Phenomenon That Is Social Media Marketing

Social media was once dismissed by naysayers as a passing fad that would hardly make a dent on how marketing and business is done. But they could not have been more wrong. According to media company Social Media Examiner, a whopping 96 percent of marketers are participating on social media. Although majority of them still need to refine their methods in using social media tools, they recognize the fact that this is a marketing channel that is not to be underestimated.

The average internet user can have as many as 5.5 social media accounts and the most popular social media networks like Facebook, YouTube, Twitter, LinkedIn, Instagram, Pinterest, Snapchat, etc. are known to have users in the hundreds of millions and even billions. Just think how many potential clients may be there. What's even better is that there are other lesser known sites that cater to a specific industry, and are therefore more effective as marketing channels. Houzz, an online community about architecture, interior design and home improvement, is one such site. Architecture firms have scored real customers there that just started from small interactions.

Architects have been slow to adapting to social media marketing but that probably won't last for long. Here are the many reasons why social media should be a vital component in the marketing strategy of small businesses, and yes, even architecture firms:

- **Social media offers a variety of ways to offer content.** That means you can post a house design on Instagram, share a completed project on Facebook, or put up a video of a rendered CAD animation on YouTube, and social media users will embrace it all.
- **Social media connects you with like-minded individuals.** LinkedIn, for one, is an easy way to connect with other architects and design professionals and to share educational content with them. These exchanges could lead to referrals and work opportunities.
- **Social media allows you to engage with other users.** The high level of engagement that social media offers is one of its key differentiators from other online marketing channels. Quick interactions on Twitter or Instagram could lead to more relevant talks about architecture and design concerns, and before you know it, you've snagged a client.
- **Social media leads followers, friends, and connections to your website.** Each time new content is published on the firm's website, you can post links of these to your social media accounts (along with an interesting image/thumb nail and a catchy tweet/message).
- **Social media improves search engine rankings.** Given that most top brands are on social media, search engines could now be including social media presence as a factor in the calculations for search rankings. The more significant your social media presence, the higher your site could rank.

- **Social media practically costs (next to) nothing.** Well, there's still Facebook, Twitter, and YouTube Ads of course, but they really don't count for much, considering how the term marketing was once synonymous with big spending.

Repeat Clients Could Be Your Best Ones

For the most part of this chapter, we've been emphasizing the need to make new connections, to attract new clients. But let's not forget how important current clients can be. Word of mouth remains a powerful marketing tool because it's one that clients are doing for you. If they're happy with your work, they're going to share that experience with others.

There's also good reason to maintain an open line of communication with clients even after a project ends. If clients are satisfied and tell you about this, the design team feels good too. Of course, it would be a big disappointment if a client expresses problems with the finished work, but looking at the bright side of things, this could also serve as a learning experience for you, and you won't be repeating that mistake again. Most importantly, keeping in contact with a past client ensures that your firm is the first one they think of when a new project is on the horizon.

An architecture practice that knows how to keep clients happy would have a good portion of their business coming from repeat clients. A client that comes back to your firm every time new work is available can be some of your best customers. There won't be lengthy negotiations for fees and time frames because they essentially know how your process goes. For your part, it's also easier to deliver on promises with repeat clients because you already know how to manage their expectations from working with them before.

Keep Busy Now So You Stay Busy Always

But the question that's probably been on everyone's mind as you've gone through the entire section on marketing is: How do I find time to do all these things? The answer is simple—don't do it all on your own.

Except if you're still working on your firm's branding and positioning (in which case you should do it together with your partners), all the rest of the marketing tasks can be divided up among the team members.

For instance, one partner can write an article for the site, while the other accommodates a speaking engagement. Another can do guest blogging, and still another oversees the website development. You can perhaps assign a nontechnical employee to manage the firm's social media accounts, and in the meantime, all of you should engage in networking in your everyday lives.

If you're still a three-partner firm (with zero staff), then just do whatever you can handle. For some professionals, "marketing" can be simply doing what you usually do. This could be engaging in social media during the morning commute, attending regular meetings of your civic organization, or just taking time to talk about your work every chance you get. You may not see the results right away, but if you keep at it, new clients and projects are bound to come sooner or later.

Adding marketing efforts to you and your staff's usual duties in the office may sound like a lot of hard work (*and it is!*). But I think it all boils down to how much you want your architecture firm to survive and even thrive. Isn't it worth it to be very busy now so you can continue to be busy later? Think about it.



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II Responding to RFPs and Building Relationships That Can Get You Ahead in the Process

Karl L. Moody

A Request for Proposal or RFP is a procurement strategy used by an organization to solicit as many bids as possible from potential service providers (e.g., architecture firms or construction companies) for a project that's in the pipeline (e.g., building construction or renovation). In the industry, architects may consider RFPs as opportunities for winning more projects for the firm, and there's a good reason for this. Government agencies from federal to state to local release hundreds of RFPs every year for multiple projects that could range from several billions to hundreds of thousands of dollars. And that's not even counting the private sector.

But that optimism could easily turn to a sense of uncertainty when you realize just how difficult it can be to craft a good response to a RFP. Sure, clients and organizations who circulate RFP documents are going to share the pertinent details of the project and what they expect of the service provider. But considering that architecture firms can win or lose contracts on the strength of their RFP response, there is immense pressure to come up with a winning response. Additionally, when you think about the sheer number of providers that are interested in the same project, you can't help but wonder what it would take for your bid to even get noticed by the selection committee.

So like I said: Creating a response that can make them sit up and shortlist your firm? Incredibly difficult. And having an actual shot at being awarded the project? Highly unlikely. But I'm using terms like *difficult* and *unlikely* here, because even if the process is challenging, achieving the goal is not impossible.

Start with the Selection Process

There's a technical aspect to getting in front of the RFP process that is necessary to understand, and that is: Thoroughly learning the

selection process. A project does not even need to be on the table to learn about how a client selects architects. In fact, it's better if there isn't a project.

However, there's a deep-seated fear in many an architect's psyche that tells us we aren't allowed to ask certain questions to a potential client. It stems, in my opinion, from the fact that most firms don't go out and proactively build relationships, but reactively respond to RFPs. Therefore, the only time they try to ask questions of a potential client is when speaking to the client is considered *off limits*. In addition, the kinds of questions that need to be asked such as budget, schedule, and special issues, clearly can't be asked once the RFP is on the street.

And this is when proactively marketing your firm can prove to be most beneficial. Believe it or not, when you take the time and the initiative to meet with a target client when no work is on the table, asking questions about the selection process is all fair game.

So What Do You Need to Know?

You want to find out what the process is from start to finish. Some of the more-commonly asked questions include:

Where do they announce work?

Do they maintain a list of pre-approved architects?

Is there a financial threshold beneath which they can hire architects without going to an RFP?

Who makes the decision?

What is the typical composition of a selection committee? (And I don't mean the specific people, because that often changes)

How many firms do they typically interview?

What responses have they heard in interviews that they felt were particularly effective?

Is the person you're talking with entitled to a vote?

Is there influence from a Board of Trustees or outside advisors?

Is there a score sheet you can perhaps see?

Which architecture firms have they previously worked with?

What did they like about the relationship?

What could have made the experience better?

Questions about finance, planning, and timelines are all perfectly acceptable to ask for as long as they aren't about a specific project.

The minute you start asking what the budget is for the library renovation that's coming up, and *oh by the way, when will we get the RFP*, you've crossed the line. The meeting is for basic understanding of how architects are hired, not about specific projects.

Establishing Relationships Is Key

If you carry out proactive strategic business development initiatives as outlined above, you'll now have better chances to be in front of the RFP process. As your relationships deepen, you'll be able to ask more specific questions about upcoming opportunities that you haven't yet earned the right to ask at your first or second encounter. One thing to remember is that you should have ongoing contact and occasional conversations well before an RFP is issued for a project that you've identified as a good fit for your firm. Because you're no longer just one of the many unknowns to them, the client will be anticipating your proposal.

When the stack of proposals is collected, it's likely that yours will be looked for and set aside, while others are sifted through for elimination. This is truly how it works.

Architectural services are procured through relationships. Signature rock star architects won't have any trouble getting calls, but most architects need to exert effort at cultivating relationships that lead to work. It's extremely rare to win a project when the proposal response to an RFP is the first exposure a client has to your firm.

Meeting the client early, letting them know you've identified them as a good fit for your firm, telling them that you'd like to work with them and that you'd like to be of help to them, is the best way to nurture an authentic relationship that leads to work.

Employing these steps will help your firm get off the RFP merry-go-round. Your business development pursuits will be more strategic, meaningful, and successful. Eventually, the RFP and your proposal will simply be the next steps in your ongoing conversations with your potential client.

Identify Market Sectors

If you ask an architect what his or her firm does, the person will likely recite a list of markets served, "We design healthcare, government, higher

education, and office buildings." So typically, I find that architecture firms generally plan for growth by considering and listing broad market categories like those mentioned.

But having a general direction doesn't necessarily translate to more projects. If you ever hope to get in front of the RFP process, drilling down into each market segment to define a deeper focus is critical. Let's take one example from above: Higher education. The higher education market can be broken down in any numbers of ways. The most common break down I see is by type:

- 2-year community colleges
- 4-year colleges
- private universities
- public universities
- state colleges
- specialty schools
- technical or trade schools
- virtual schools (like Phoenix).

Anyone marketing to higher education knows that it isn't enough to have general campus experience. Firms are developing deep expertise in specific campus facility types such as residence halls, laboratory and research facilities, libraries, and performance spaces. As an example of how to define the segment more deeply, let's work with the scenario that your firm has specialized experience in sports and recreation facilities. The segmentation might look like this:

- Division I, II, III, IV
- intercollegiate
- intramural
- aquatics
- arenas
- stadiums
- outdoor facilities
- indoor facilities.

Now let's think a little bit differently. What if you're interested in historic preservation on campuses? What if you worked with the premise that the campuses that have the richest stock of historic buildings tend to be the oldest liberal arts colleges across the country?

If so, what metrics could you study to find that market segment? You could consider:

- enrollment size
- rankings of liberal arts colleges
- tuition fees (higher vs lower)
- date of campus origination
- number of registered historic buildings.

The more specific you can be in defining the market segment you plan to approach, the more focused your efforts will be, the easier it will be to identify targets within the refined segment, and the more manageable the plan will be to implement.

Identify Existing Clients within Each Specific Market Segment

Once you've decided on exploring the deeper market segment, the next step is to identify targets. Starting from existing clients then dormant clients, list the institutions that you've worked with. These are mature client relationships that can be cultivated to learn more about the market segment and the potential work that could be available in the future.

There's a way to leverage existing relationships without "selling." Working with the higher education example again, let's say you've provided historic renovation and restoration for UC Berkeley and UC Santa Cruz. The process is to contact the people you've worked with to learn more about possible restorations or perhaps seismic retrofits.

Ask for a meeting to *catch up* and engage in a comfortable, friendly conversation. Make sure that you don't show up with a brochure or package and flip through the pages to show what work you've recently completed. No one likes to be sold to, not to mention that this is why architects tend to dislike business development. If it feels like you're selling something, you are; and that's just plain uncomfortable.

When the talk shifts to business, rather than ask if there's work—which puts both parties in an uncomfortable position—it's much better to ask if there are other people on campus whom you should get to know. Ask for referrals to these people, or see if you can be introduced to them at that moment (if it's just a walk down the hall). If it's

suggested that you contact the person you've been referred to, ask if you can use the person's name, or even better, ask if the person you're meeting with can call the other individual to let them know you'll be getting in touch with them.

The other important question to ask is if there are others in the higher education community who might benefit from knowing about your firm's services. This is a more comfortable question than simply asking, "*Who else is hiring architects?*" Again, ask for an introduction, or make a call to the person to set up your appointment.

If your strategic business development plan is solid, it's also feasible to ask this client if he or she knows someone at one of the other targets on your list. For example, you'd like to begin doing work at UC Sacramento. Does your client know anyone there that they recommend you get to know?

A wonderful way to close a meeting of this nature is with a simple question. "*Before we conclude, I just wanted to ask—Is there any way I can be of help to you?*" That would make your intentions clear enough: Yes, *I'm interested in working with you again*; but phrased in a way that doesn't come on too strong so as to turn off the client.

The key is to continue to build the relationship with the contented client, to ask for referrals, and to grow your network by leveraging the relationships you've already built.

Identify New Target Clients in Each Specific Market Sector

The kinds of conversations you would have with a new target client are similar. It's important to know what the goal of the meeting is. It's simply to get to know the person, learn about his or her career, interests, family, and so on. Then you can move on to understanding the person's role and responsibilities at work. In other words, the meeting should be a mix of you making casual inquiries and asking smart business questions.

Casual inquiries begin by noticing the surroundings, "*Oh, you're a Cornhuskers fan.*" Upon seeing a framed photo, a good conversation opener would be, "*Are those your children?*" At the same time, sharing personal information from your own life, "*My kids are into soccer,*" helps to break down barriers and make the meeting more comfortable. I encourage my clients to go into meetings thinking about how they can help set the other person at ease.

It should also be interesting to learn how a person got to his or her current position, and where else the person may have worked. You might share your work history as well, if it feels appropriate to do so.

Once you've set a pleasant atmosphere, it's on to the *smart business questions*.

How to Ask the Right Questions

Architects are more than happy to meet with clients when there's a project on the table. As long as there's a pen and paper, they are great at having sketch talks. But when I suggest to them to meet with no project to discuss they often ask, "*Then what do we talk about?*" As a matter of fact, there's plenty.

You can start by asking business questions that indicate you understand the industry the person is in and what issues might drive projects in their area of expertise.

Let's use college residence halls as an example. An architect client of mine was heading to a university in Virginia to meet with a new contact connected with this targeted university. My client wanted to pitch Greek Housing, something their firm has a lot of experience designing. As it turned out, it only took a few questions to get the crucial conversation started. Here's how I helped them frame the "smart business questions" to get to the business issue the potential client could be facing.

After exchanging pleasantries, the turning point of the conversation started with this:

"With high school enrollments projected to drop every year for the next decade, we were wondering: What is the University doing in terms of facilities to attract more students?"

After some discussion generally around this, the follow-up question was, *"Is the University considering residence hall or Greek Housing improvements to remain competitive?"*

Because my client representing his firm arrived "empty handed" (no quals, brochures, etc.), the discussion piqued the person's interest. No one comes to a potential client meeting armed only with their knowledge and experience in their chosen field of expertise, unless they are that confident. That sealed the deal for a follow-up meeting. Understanding that the firm had a great presentation on Greek Housing—an area that would fit well with the needs of the university,

the potential client invited the two architects back to make a pitch to the facilities staff.

Knowing how to skillfully meet new clients and preparing the right kinds of questions is the best way to establish your expertise without pushing information. Instead, you will be asked for information. Even when you're not actively *selling*, others will be interested with what you have to offer.

Request for Proposal (RFP): Why Does the Architectural Profession Depend on It So Much?

I know that we've talked extensively about how being able to respond to a RFP can lead to good opportunities for a firm. But the truth is, this sentiment is not shared across the industry. For many architects, the RFP process is a demeaning process which turns the architects into common labor.

When a RFP is given, agencies may identify a set of criteria—often including price, qualifications, and experience—which they will use to evaluate bids or proposals submitted in response to the request. It may appear that there is a standard procedure for selecting the most qualified bidder for the project. But what the process is ultimately seeking is the cheapest labor from a professional licensed practitioner, to be tasked with pushing the construction documents through the local building department. It's to the credit of architects that they continue to aim for producing the best possible design solution for the projects, despite the humiliation of being treated as a necessary bureaucratic commodity.

There was a time when celebrated architects like Frank Lloyd Wright refused the label of *licensed architect*. Wright thought that such a label would subject the architectural profession to governmental control. In a way, he was proven right.

It is not a coincidence that the largest purveyors of RFPs are local and federal government agencies. These agencies have created a process that has literally destroyed the ability of architecture firms to truly capitalize on their talents. Instead of banking on their skills and capitalizing on their quality of service, architecture firms have opted to focus on how they can get ahead in the RFP process.

When privately-owned businesses in the free markets decided to adopt the same methods for selecting architecture professionals,

architects acquiesced to this change. If that's the way things were going to roll, then they are left with little choice on the matter.

Seeing as how architects are constantly at the mercy of the RFP, it's not too far off to say that the process has doomed the architectural business to forever be the hopeless toil of the small businessman.

So How Should the Architect Respond to a RFP?

Well, if it were only possible, architects should not respond at all to any RFP. In the real world though, the RFP is a necessary evil that the architectural practitioner must deal with.

However, there is some hope to gaining a little control over the RFP process. But to be able to do this, the architect must stop thinking like an architect and think more like a spy. Believe me, this leads to a plan. Hear me out.

A spy gathers information to gain an advantage over an unsuspecting opponent. The spy then uses the information to shape the outcome of events in his favor. The architect-spy (*let's call him Arch-007*) gathers intelligence about his or her market. Arch-007 is seeking to win the RFP before anyone else even knows such RFP exists. And how does Arch-007 achieve this level of stealth and cunning?

Simple. Arch-007 follows the money. In the case of government bidding or RFPs, the process is supposed to be fair and impartial (and for the most part it is). However, government RFPs are highly subjective and typically uses a grading system which can be skewed to your favor . . . if you have become privy to the complete intelligence information on how this RFP has reached you in the first place.

If you have foreknowledge of the inner workings of the RFP and its politics, you can position your firm to provide the winning bid. Remember, the architect's knowledge of architectural design has very little to do with truly winning RFPs consistently. Instead, having a high chance of winning RFPs always has to do with three key components:

- One, *understanding why* a project will be needed and becoming an early advocate for its implementation;
- Two, *becoming* a part of the project money trail; and
- Three, *establishing your firm as* a future stakeholder in the project itself.

The three outlined strategies mentioned above are the foundations of a project-winning firm. Now let's see how our architect-spy can carry out these strategies.

Understanding why a project will be needed is a relatively easy task for Arch-007. In the case of government projects, simply start by taking a look at the master plan for the local municipality. The municipal master plan has a wealth of information on the needs of the local government and the direction of its development. (A quick detour: *At this point, I would like to suggest to those forward thinking architects who may choose to take my advice on pursuing these strategies outlined here, to open a separate corporation to conduct Arch-007's business.*)

Research the growth of the municipal tax base to determine if the jurisdiction is growing or shrinking. Measure the past 10–20 years of community development and measure how the master plan has responded to local economic movement. If the master plan is being implemented with some level of success, then it will represent a reasonable road map to begin Arch-007's infiltration mission.

Once Arch-007 has determined who among the municipal representatives have a say or impact on the master plan, it's time to layout an advocacy plan.

Your advocacy plan should play to your firm's existing strengths (i.e., if your firm designs schools, let Arch-007 focus on school boards). Your advocacy plan is not a party, nor a "how I know who's on the board of this or that." The advocacy plan seeks to place Arch-007's firm in the most favorable position to win future design projects. The advocacy plan must look at how to engage the money trail needed to design and build projects at all times.

If municipal bonds will be needed to build the project, you must establish relationships with the people who provide such bonds and lobby for them to participate in the municipal project early in the development process. Once they are committed, nurture these relationships to put yourself in an ideal position to obtain information.

If there are existing bonds being sold for a future project, buy one or two shares if you can. When Arch-007 buys those bond shares, it's easy to have access to all the information about the financial worthiness of the project, and the ways and means in which the public will pay off the debt. This information is invaluable to understanding how Arch-007's firm will position itself in the future to respond to a RFP request.

Another type of advocacy is seeking public-private partnerships. This is Arch-007's greatest weapon when capturing government projects.

Public-private partnerships seek to remove a large part of the procurement process out of the government's hands and place it in the hands of the private sector. This process does not mean it is now a free-for-all exercise in terms of government procurement processes. However, decisions can be made more liberal as it relates to the awarding of contracts by the private partner.

Note that these advocacy tactics do not depend on Arch-007 having any substantial money, or investing any considerable assets into a project. All Arch-007 is doing is connecting the dots early on in the development process, and positioning his organization to become a type of facilitator that guides the flow of information to key parties in the development process.

What is Arch-007's mission for the private sector? Once again, follow the money! The private sector is a lot like the government or public development sector, with one key difference and that is the "Golden Rule" (*He who has the gold makes the rules*).

In the case of the private sector, development money flows through banks, money markets, and private equity groups. (If you are sitting in front of a developer asking you to design some building and you are not tied to how he is receiving his money to develop this project, you are at risk.) The private sector's RFPs are not to be taken seriously.

If a private developer asks an architecture firm to submit an RFP, the firm has not done its homework. Why? Because you need to understand that what the developer is really asking you to do is to be their short-term bank during the development process, without much upside to the deal. Arch-007 must broker banks and other money management interests to developers, then take the architectural fees as their stake in the game.

To become a stakeholder in all your projects, you need to seek out any and all opportunities to participate in the big picture as the client sees it. The big picture has very little to do with design or function. What the client cares about is asset value (what this project is worth). Many architects have their head stuck so deep in the sands of design that they can barely understand the client's true objective, which is to make money.

There are numerous strategies Arch-007 can use to become a stakeholder in his client's project. One is to offer up some of your fees as an investment in their project. Another opportunity is to offer to help find tenants for the property if it's a rental property. Also, offer to have your fees financed by your bank (Note: If your client finances

your fees, your payments will be more secure because your bank is paying you). Becoming a stakeholder is a sure way to avoid the RFP trap, because you are now a partner and not just a commodity.

In Summary

In this day and age, architects must not only rely on their knowledge of their chosen profession to remain solvent. As the RFP process indicates, design skills and experience are no guarantee to winning projects. Surviving and thriving in the architecture industry now entails social and communication skills, a good deal of business savviness, and the ability to adapt to the changing rules, however disadvantaged you may be. Oh, and some spy skills could come in pretty handy too.

12 Intellectual Property: Who Owns What?

Timothy A. Kephart

As English writer Charles Caleb Colton once famously said, “*Imitation is the sincerest of flattery.*” But when it comes to intellectual property in architecture, and in many other fields, that expression of praise would not be responded to with any appreciation from the original creator. Instead, the architect, designer, composer, or any person who produced the body of work, can take the imitator to court for theft of intellectual property.

Intellectual property is commonly defined as a work or invention that is the result of creativity, such as a manuscript or a design, to which one has rights and for which one may apply for a patent, copyright, and trademark. In architecture, the concepts, designs, and plans architects create are examples of intellectual property. Not only do these pieces of intellectual property represent an architect’s life work, they also represent significant assets. These are assets that should be valued and protected.

This chapter deals with intellectual property rights in the field of architecture and how architects can make use of this to protect their work.

Copyright Protection under the AWCPA

It was in 1989 when the US Congress, during the Berne Convention for the Protection of Artistic and Literary Works, recognized that “*architecture is an art form that performs a very public, societal purpose . . . deserving of protection under the Copyright Act.*” The Architectural Works Copyright Protection Act (AWCPA) was then passed in 1990, effectively amending the existing Copyright Act to include “architectural works” in the list of protected works under Title 17 of the United States Code (which outlines the US Copyright Law).

The Act provides copyright protection to original designs of architecture in virtually any form including plans, drawings, and even the buildings themselves. AWCDA makes it clear that, in the absence of an agreement to the contrary, ownership of architectural plans belong to the creator, not to the person or business whose house or building is being built from those plans.

With the passage of AWCDA, architects for the first time enjoyed a much greater level of protection, now being able to register completed buildings as well as drawings. According to the Act,

[T]he design of a building as embodied in any tangible medium of expression, including a building, architectural plans, or drawings. The work includes the overall form as well as the arrangement and composition of spaces and elements in the design, but does not include individual standard features.

Protection extends to the overall form as well as the arrangement and composition of spaces and elements in the design, but does not include individual standard features or design elements that are functionally required.

So let's be clear about what is recognized under the AWCDA as protected and what isn't. First, the copyright law allows for the registration of the following:

- Building designs created on or after December 1, 1990;
- Building designs that were created in unpublished plans or drawings but not constructed as of December 1, 1990, but were constructed before January 1, 2003.

In addition to designs, copyright protection can also extend to general drawings and blueprints, preliminary plans, sections, elevations, floor plans, construction plans, rough models, models of internal support, models of external appearance, photomontages of the building against backdrops, computer-generated images of a design, and constructed buildings.

However, the following building designs cannot be registered:

- Designs that were constructed, or whose plans or drawings were published, before December 1, 1990;

- Designs that were not constructed and created in unpublished plans or drawings on December 1, 1990, and were not constructed on or before December 31, 2002;
- Structures other than buildings, such as bridges, cloverleafs, dams, walkways, tents, recreational vehicles, mobile homes, and boats;
- Standard configurations of spaces and individual standard features, such as windows, doors, and other staple building components, as well as functional elements whose design or placement is dictated by utilitarian concerns.

One of the biggest issues in architecture stem from the fact that developers, homeowners, and building owners often mistakenly believe that paying an architect for plans also denotes ownership of the plans. The issue even becomes more complicated when clients, believing what they do, further assume that they are allowed to sell, reuse, give, and make copies of the plans.

This confusion can cost architects thousands, if not millions, in damages and lost revenues. The AWCPA provides clarity about who owns the intellectual property the architectural professional creates, and lays the groundwork for protecting these intellectual property assets.

It Pays to Have Architectural Copyright

The courts have adjudicated cases revolving around AWCPA for more than 25 years. Here are some of the cases that have been resolved in favor of the architects who originally designed the plans.

Christopher Phelps & Associates, LLC vs. Galloway

In February 2007, the US Circuit Court for the Fourth Circuit in *Christopher Phelps & Associates, LLC vs. Galloway*, 492 F.3d 532 (4th Circuit 2007) ruled that an architect who designs a home owns the copyright in the plans he creates and has the exclusive right to make copies of the plans and allow others to use them. The case alleged that the client provided and used unauthorized copies of plans the architect had designed. The Court awarded the architect \$20,000 in compensatory damages which represented the fee the architect would have charged the infringing party for the design plans.

Hewlett Custom Design Homes vs. Frontier Custom Builders, Inc.

In May 2013, Federal District Court awarded \$1.3 million to Hewlett Custom Design Homes. The case alleged that Frontier Custom Builders, Inc. and Ronald W. Bopp, in Case 4:10-cv-04837, in the U.S. District Court for the Southern District of Texas, Houston Division infringed on the copyright of Hewlett Custom Design Homes. Frontier and its owner, Ronald W. Bopp constructed nineteen homes using unauthorized copyrighted designs of Hewlett Custom Design Homes. The court award of \$1.3 million represented the profits generated from the sale of the 19 homes.

Kipp Flores Architects LLC vs. Hallmark Design Homes of Sugar Land

In November 2013, the U.S. Fifth Circuit Court of Appeals affirmed the award of \$3.2 million to Kipp Flores Architects LLC, of Austin, TX, in a federal copyright infringement case after Hallmark Design Homes of Sugar Land, TX, constructed 380 homes based on the architect's copyrighted designs. The \$3.2 million award was based on the profits Hallmark earned from the sales of the houses at issue and remains as one of the largest awards ever for an architectural copyright case. This November 2013 case was the second copyright infringement case, the Kipp Flores firm won. In 2001, a federal jury in Norfolk, VA, returned a \$5.2 million verdict in the firm's favor against Virginia-based builders Signature Homes and Residential Concepts (Durability and Design, 2013).

These cases reaffirm that it is the architect who owns the plans, unless otherwise agreed. More importantly, they show the value in copyrighting your work. In the case of Phelps vs. Galloway, the jury only awarded compensatory damages amounting to \$20,000, which is hugely disproportionate to the amounts awarded in the other two cases.

Because Phelps did not register the copyright in the US Copyright Office, he was not eligible to be awarded statutory damages which permit \$30,000 per infringement and \$150,000 per infringement if proven to be willful. The award was limited, with the amount solely based on his testimony that he would charge the client \$20,000 for the plans in question. I think it would be safe to say that Phelps &

Table 12.1 Intellectual Property Copyright Cases in Architecture.

| Protecting Your Intellectual Copyright Does Pay | | | |
|---|--------------------------------|----------------------------|----------------|
| Legal case name | Location | Description | Fees Won/Lost |
| Jeehoon Park v. Skidmore, Owings & Merrill | New York City One | World Trade Center Tower | \$3,000,000.00 |
| James Zalewski v. Rensselaer & T.P. Builders | New York City | Home Designs infringement | Undisclosed |
| Kipp Flores Architects v. Hallmark Design Homes | Austin, Texas | Home Designs infringement | \$3,400,000.00 |
| Zalewski v. Cicero Builder Dev | New York City | Home Designs infringement | Undisclosed |
| Nova Design v. Grace Hotels | 652 F. 3d 814—Court of Appeals | Holiday Inn Express Design | Undisclosed |
| Penn Central Transp. Co. v. New York City | New York City | Office Tower Design | Undisclosed |
| Scholtz Design, Inc. v. Sard Custom Homes, LLC | U.S Court Of Appeals | Home Designs infringement | Undisclosed |

Associates have already been registering for copyright of their plans since then.

Registering Architectural Copyright

So how do you protect your intellectual property assets? The first step (and most important one) is to register your copyright. As soon as a piece of qualified work (under AWCPA) is available in a tangible, written form, then there exists a copyright. For Kipps Flores and Hewlett, the time and cost for registering their copyrights have yielded millions of dollars in statutory damages.

There are three vital elements to applying for copyright registration with the US Copyright Office:

- A fully filled-out application form;
- A nonrefundable filing fee; and
- A nonreturnable “deposit” defined to be the copy or copies of the work being registered.

According to the Copyright Office, the current cost to register a copyright is a very minimal fee of \$35 for a single work, if there is only one author who is also the registrant, and if the work is not made for hire. Under all other conditions (e.g., two or more authors, work was made for hire) the fee increases to \$55. You could also opt to have a lawyer process your registration, but in this case the costs could easily go as high as \$250 to \$500.

There are two ways by which you can apply for copyright registration. The first is through online registration through the electronic Copyright Office (eCO). This is the preferred method of applicants because it has the fastest processing time, offers online status tracking, and allows for secure payments using credit/debit cards, electronic checks, and deposit to the Copyright Office account.

The second way to apply is by using paper forms, which is basically accessing online forms, printing them out and completing them by hand (although you may also fill-out the forms electronically prior to printing), and then sending the forms by mail with a check or money order and your non-returnable “deposit.” The forms that are applicable for architectural works are the Form VA (visual arts works) and Form CON (continuation sheet for paper applications).

Make registering your plans a regular part of your professional activities. This way, you protect yourself, and lay the groundwork for the maximum award if you find yourself in court defending your intellectual property and copyright.

For more detailed information on how to register architectural copyright, check out the document www.copyright.gov/circs/circ41.pdf.

The Challenge of Proving Your Case

Now before you start strategizing about how to profit from infringement lawsuits, it's important to first recognize that proving your case can be difficult and is in no way a slam dunk.

Case in point: On June 2014, a New York-based federal appeals court tackled the tricky question of how to define originality in architecture. In the end, it ruled against James Zalewski, a New York architect who claimed that two construction companies copied his designs for colonial homes. The second U.S. Circuit Court of Appeals upheld a district court's ruling that the architect did not have his copyright infringed when the companies and their contractors constructed houses based on his designs, after the licenses he sold to the companies had expired. The defendants in the case included Rensselaer, NY-based Cicero Builder, and Albany, NY-based T.P. Builders (Hurley, 2014).

So how do they really decide whether a certain architectural work is copied or not?

A critical component to winning a copyright infringement case is proving where imitation ends and originality begins. Most circuit courts evaluate whether an ordinary observer or lay person would conclude that an alleged copy of a building or plans was actually copied from an original copyrighted work. However, it's more complicated than that.

Courts typically employ a two-step process. The first is excluding elements—standard features that are not protected by copyright. Standard features, for example, include doors, windows, and other staple building components. The second step involves comparing the architects protected plans or expressions to the alleged infringing work. Furthermore, attorneys for the defendant like to argue about what is in the public domain and often makes statements like, “*Nobody owns Tuscan design*” or “*All composers have the same 13 notes to work with.*”

As you can see, copyright infringement cases focus on how the architect puts it all together and the originality of design, so there's never any guarantee that you can prove your case. One could also argue that the process of deciding if the similarity is sufficient enough to warrant copyright infringement could be fraught with subjectivity. But then again, the decision could go either way. It's therefore always better to have that right to plead your case—through your copyright—than going down without a fight.

Key Points to Remember

There are a number of things that you need to keep in mind that would best protect your intellectual property, designs, and copyrights. These useful tips can also assist you in determining if your copyrights have been infringed upon, and conversely, help you avoid infringing upon other architects and designers.

(Please note that many of these points have been adapted from an article by Attorney Jeffrey M. Reichard, a construction and intellectual property lawyer connected with Nexsen Pruet in Greensboro, NC. The article entitled “The 10 things you must know about architectural copyrights” was originally published in the Nexsen Pruet website.)

Architectural Plans Are for One-time Use, for a Specific Project, Unless Otherwise Agreed

Payment for architectural plans by a developer, building owner, or homeowner only provides for a nonexclusive license to use the plans on a particular construction project. This means that the owner or contractor, unless otherwise agreed, does not have the right to use the purchased plans for any other projects and does not have the right to prevent the original designer from selling those same plans to other owners and/or contractors.

This copyright protection creates opportunities for architects to receive additional compensation for their work because they may resell or reuse their designs. In addition, if developers, building owners and/or homeowners insist that their design contracts include a written assignment of all copyrights and other intellectual property from the architect or designer to the developer, the architect should be able to receive additional compensation for this.

If the design's uniqueness is important to the developer, building owner, or homeowner and they insist that its license be exclusive, the architect will then be unable to utilize the design or license the design to other paying clients in future. That's why the architect should be compensated an additional amount to account for the lost revenue opportunity and charge the client for the full transfer of copyright. To confront and avoid copyright ownership confusion, we recommend architects present proposals with two options: *Standard proposal costs for one-time use and premium proposal costs for full transfer of copyrights.*

It Is Never Acceptable to Imitate Another Architect's Work

Neither architects, nor owners or builders should try to mimic the work of any other architect in any form. This is made clear in the Architectural Works Copyright Protection Act (AWCPA) which we mentioned previously. The act explicitly provides copyright protection to original designs of architecture, whether it be the architectural plans, the design drawings, or the buildings themselves. A person does not even need to physically copy the plans to be held liable to reproducing or building the design without permission. It doesn't pay to imitate someone else's work.

You Can't Hide from Copyright Infringement Claims by Making a Change to the Plans

Even if you attempt to change up the plans to create differences between your design or building and the original "work of art," a court of law can still determine if infringement has occurred by conducting examinations. The first examination to tell if an architectural work infringes a copyright owner's original work involves a comparison of the two items by everyday people to see if they perceive any similarities. The observers will evaluate the look and feel of the works and if they are conceptually the same, infringement may be ruled.

Another examination of the works involved looking at the items through a filter that excludes any new or non-original facets of the work and focusing on the base product. This "filtration" test can also determine if the items are similar enough to indicate copyright infringement.

Know Where Your Design Plans Come From

It is always wise to know from where or from whom a design originated. This is due to the fact that you could be found guilty of copyright infringement and not even know that the design was not an original work. Not knowing that the design has another originator/creator will not prevent an individual, builder or architect, from being made liable for copyright infringement. A copyright owner just needs to prove that someone had access to the copyrighted material and that the infringing work is similar to it.

Infringement Can Be Proven With or Without a Copyright Notice

We are all used to seeing the ubiquitous “©” copyright notice on items which we know to be copyrighted material. However the symbol alone does not protect the item from infringement. Even if the “©” copyright notice does not appear on the drawings, they are still protected under the law. Builders, architects, and owners should assume that all architectural works are protected under copyright law regardless of whether the author includes a copyright notice.

Of course it is recommended to copyright one's work to ensure protection, however, for works published after March 1, 1989, a copyright notice is not required . . . a lawsuit can still be pursued without it. It doesn't cost much to register your copyright and it goes a long way to protecting your intellectual property, especially if you should ever need the protection in a legal proceeding.

You'll Have to Pay Up if You Lose a Copyright Infringement Suit

The courts are allowed to render blanket amounts of damages in certain cases if infringement is suffered. An award of up to \$150,000.00 per case of infringement could be rendered regardless if a copyright owner can prove the amount of actual damage caused by the infringing party. And this fee can be parceled out for every infraction of the infringement. For example, a builder who constructed ten speculative tract homes based on a copyrighted design could be liable for \$1,500,000.00–\$150,000.00 for each home, as a result.

The infringement damages can also be increased with added attorney's fee and court costs.

Make it a Habit to Immediately Register Your Copyrights

To gain the most benefit from copyrights in the case of an infringement, your copyright registration needs to have been started prior to the infringement happening. Or if the work has been published, the registration must have taken place within 3 months of the first publication of the architecture work. You will have little or no recourse if an infringement case arises and you have not registered your copyright beforehand.

Know Where Your Plans Come From and If You Have the Right to Modify Them

As an architect, owners/clients are often providing plans to you that they want you to modify, copy, or use in some way. This can create a prime situation for copyright infringement if you move forward with using the plans without fully knowing where they came from and if the original copyright owner gave their permission to modify the plans. Always do due diligence to determine the original source of the plans and your ability to reuse, copy, or modify them.

Moreover, if you do receive plans in this manner, you should request the owner to indemnify you from copyright infringement should any unforeseen claims arise.

Does Your Insurance Cover Copyright Infringement Claims?

Check with your broker to ensure that your insurance policy covers architectural copyright infringement litigation. This is not always the case in general commercial liability insurance. It is possible that your professional liability insurance policy might cover these types of claims, but it is recommended that you inquire with your insurance agent to confirm the coverage you have. It may be necessary to add supplemental insurance policies for the utmost protection.

Get Legal Consultation

You might want to consider obtaining the services of a legal firm to assist in protecting your copyrights. Find a law firm that specializes in intellectual property protection and negotiate with them to represent you on a contingency basis should any claim arise. You may be able to

work out an inexpensive fee for them to file the copyrights as well. You will gain a team to work on your behalf to copyright your work as well as fight any infringement cases that are pending.

In Summary

There could be so many reasons why people and organizations need to secure their intellectual property assets. For some, it's simply a matter of pride. But you need look no further than the perennial disputes of Apple and Samsung to understand that one's fortunes (or the loss of it) could really be tied to intellectual property, hence the need to strongly defend their rights. At the end of the day, protecting your intellectual property rights is really protecting your business.

13 Determining How Much Your Firm Is Worth

Timothy A. Kephart

For most of those who start their architectural practices from scratch, growing the business into a big and profitable firm is the constant goal. But once a firm has stabilized operations and has established itself as a decent competitor in the industry, owners and partners may start to think about how the firm is currently valued in the marketplace.

There are a number of instances when determining the value of an architecture firm may be required in the course of the firm's business operations. The most common reasons for valuation are:

- For determining the right value in a possible mergers and acquisitions (M&A) transaction with another firm;
- For negotiating a fair price in a potential buy and sell agreement;
- When offering or considering employee stock ownership;
- For purposes of retirement forecasting and estate planning; and
- In the event of legal dispute that may lead to the breakup of the practice.

Under any of these circumstances, the firm management's first question would be, "*What's the firm worth?*"

In this chapter, we walk you through the basics of determining an architecture firm's business value, take note of the factors that are considered critical to its valuation, and explore ways on how owners can increase the firm's worth.

What's the Value of the Architecture Firm?

When considering business transactions that involve value, the most commonly accepted standard is the *fair market value*. The United States Tax Law (IRS Revenue Ruling 59–60) defines fair market value

as “*the price at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of relevant facts.*”

While the concept of value is quite straightforward by definition, in actual practice, putting value to a business is a rather complex discipline.

Much like architecture, business valuations are a combination of art and science. The financials, which include revenues, profit margins, and assets, are the math and science of business valuation. Goodwill, on the other hand, which includes the experience of the staff, tenure of the business, client base, marketing, and brand equity, comprise the art portion of valuation. For small businesses, the goodwill plays a major role in enhancing or detracting from the value of the business, and is often subjective in nature.

Businesses with the highest valuations are generally those that have predictable, growing revenues, high profit margins, tangible assets, equipment and inventories, sales forces and distribution channels, intellectual property, competitive advantages, solid market share, and a recognizable brand. Unfortunately though, most service-based businesses including architecture firms, as they are constructed today, lack many of the components necessary for high business valuation.

What puts the architectural practice at such a disadvantage? When looking at the financials and specifically at the balance sheet, architecture firms have very little property, plant and equipment, no inventory, and few assets. In addition, most architecture firms have only a sliver of the overall market, few competitive advantages, and limited brand recognition. What can make matters worse is unpredictable future projects, contracts, and revenues.

Valuing an Architecture Firm: Key Elements to Consider

The general lack of assets that puts the firm at a disadvantage is widely acknowledged in the industry. However, it is also recognized that the architecture business is quite unique in that a number of its strengths lies in intangibles—factors to which no numerical value can be assigned, but are nevertheless critical to the firm’s worth. The “human capital” element, for example, may not be worth anything on paper, but for a potential buyer or acquirer, the level of talent in a firm would definitely be a major consideration.

In an AIA Best Practices guide, Michael Strogoff, FAIA, lists some of the factors that may be deemed vital when valuing an architecture firm. These include:

- Ability to obtain new business and deliver it profitably;
- Steady growth and healthy backlog of work;
- Resources, assets, and cash flow;
- Employee levels;
- Appropriate lengths of time current owners can, and will, stay during a transition;
- Depth of key staff, including next generation of owners in place;
- Amount and quality of intellectual capital; and
- History of litigation and claims.

(Strogoff, "How Much Is Your Firm Really Worth?"
AIA Best Practices, American Institute of Architects.)

Both sellers (firm owners) and potential buyers should understand how these factors affect the valuation of the particular firm, and, together with the assessment of other standard metrics, be able to determine a fair market value for the business.

General Valuation Methods

The National Federation of Independent Businesses (NFIB) identifies several methods to value a business:

1. **Asset Approach(es):** Adding up the various assets of a business is a common method to determine its value. Simply listing out and adding up all the company's physical parts, funds, and tangibles will provide a sum of its total business value.
2. **Income Approach(es):** You'll likely need a financial analyst to assist you with using this approach. It is a more involved method which weighs the company's forecasted cash flow and various multipliers of earnings to attempt to place a value on the business.
3. **Market Approach(es):** Think of the market approach as the same method you would use to price a home, selecting several comparables of like size homes in the same area up for sale. This approach uses comparables of similar firms in the same locale that may be going up for sale in the near future.

The Multiple-Valuation Method

Curtis Kroeker, President of Marketplace Verticals for Washington, D.C.'s CoStar Group Inc. which operates sites such as BizBuySell.com and BizQuest.com, suggests a particular market approach: The multiple-valuation method. He says this is likely the most useful one for small business owners.

According to Kroeker,

Even in a more sophisticated valuation, an appraiser or business broker will take multiples into account—although that's just one of the things they'll consider, as they'll base their final estimate on more specific details [after] working with the seller to determine what is the real cash flow of the business.

As for why he doesn't recommend going with, say, the asset approach, Kroeker says that it's used "more for businesses that aren't going to be on-going concerns. If the business is going to be an ongoing concern, this approach will give you a very conservative value."

Architecture firms typically have few assets, and the relatively few assets they do have are likely to be fully depreciated. Therefore, the asset approach is not an accurate representation of the firm's value.

Business valuations based on multiples is a way to quickly compare businesses in similar industries to one another. For example, according to Bob House, President of BizBuySell, the use of multipliers is generally the quickest way to get a ballpark estimate of a small business' market value. The most common types of multiples used include revenue (sales) and cash flow.

Cash flow is usually calculated by adding the business' earnings before interest, taxes, depreciation, and amortization (EBITDA) with the seller's discretionary earnings (SDE), which takes into account the owner's income and benefits.

Once those numbers are determined, owners can simply apply the appropriate multiplier to their revenue or cash flow data to get a decent estimate of the value of their business. The trick is finding the correct multiples to use as they vary by market and business type.

Nationally, for example, the average sales price of sold businesses reported on BizBuySell is 0.6 times revenue. Therefore, one could expect the "average business" to sell for 0.6 times its annual revenue. Moreover, the national average for the multiple for cash flow is about 2.4.

As a point of reference, BizBuySell publishes sales data and multiple metrics mentioned above in its quarterly Insights Report. Small business owners looking to estimate the value of their businesses can find the appropriate multiples for both their geographic location and industry type. Another excellent resource is the *Business Reference Guide*, now in its 24th edition, published by Business Brokerage Press. This guide includes “rules of thumb” commonly used to price businesses and franchises across hundreds of industries.

Calculating the Value of Architecture Firms

Valuation of architecture firms is most often expressed in the marketplace as a multiple of revenue and/or multiple of Cash Flow and Seller's Discretionary Earnings (SDE). This allows sellers to present a snapshot of the firm's revenues, cash flow/SDE, and asking price while giving potential buyers the ability to quickly compare the seller's firm to the marketplace and assess how realistic the asking price may be.

In simplest terms, using the national average for multiple of revenue, an architecture firm's baseline value is typically calculated at $.6 \times$ gross revenue. In this case, a firm with \$1 million in revenue may be worth approximately $.6 \times \$1\text{ million} = \600 K . Using the multiple of cash flow/SDE that same firm with \$1 million in revenue and \$250 K in cash flow/SDE may be worth approximately \$600 K calculated as $2.4 \times \$250\text{ K} = \600 K .

Unfortunately for architecture firms, these multiples are on the lower end of the spectrum. One down year or one postponed or cancelled project may automatically slash the market value of an architecture firm in half. If the example firm described above experiences the delay or cancellation of a \$300 K project, dropping the firm's revenue from \$1 million to \$700 K, their value drops from $.6 \times \$1\text{ million} = \600 K to $.6 \times \$700\text{ K} = \420 K . Take advantage of the typical firm valuation based on multiples by always seeking, accepting, and including the engineering project fees into the top line of your financials. This will boost firm revenues and potentially raise the firm's value.

A Sure Way to Increase Your Firm's Value

One of the ways architecture firms can counter the unpredictable reality of cancelled, stalled, or postponed projects is by attempting to

get more projects. But having more projects, more projects, and even more projects is not easily done. Fortunately, it's not the only answer. Forward thinking, innovative architects combat the reality that the firm is only as valuable as its next project and the next receivable by transferring project-based revenue into real appreciating property.

One obvious asset that the architect owner can acquire is the office building that the firm is using. Architect's spaces often start as a rental but most often, the long-term, financially successful architect finds a way to purchase, and, over the life of his practice, pay for the office space or building the firm occupies. At the end of the architect's 30+-year career, after he and the firm have slowed down and often times, shuttered the practice, retirement is paid for through the sale of this office property. The firm, without its Principal, has no value and is not saleable.

But even with an active, ongoing firm, the real estate is often more valuable than the firm and more liquid as well. It can be used to qualify for financing which could go a long way in boosting the firm's growth. Banks love assets that can be collateralized and they are likely to provide lines of credit based on the value of your firm's real estate. And then when the firm eventually closes its doors, the property can be rented or sold to provide for the financial comfort of the architect-owner and/or partners.

Exploring the Fee-Equity Compensation

Aside from purchasing real estate, architects and the firm's leadership need to expand further upon this strategy of acquiring assets. I don't just mean the usual equipment with depreciating value such as computers, furniture, plotters, and so on. What I'm trying to drive at is that the completion of every project should result in securing an asset for the firm. The achievement of meeting another payroll is always a given, but the firm and its leaders should aspire for more with every successful project.

Here's an idea: If architecture firms received a portion of their compensation in equity in each project they helped create, the firm's value and the wealth of the architect would increase. The balance sheet would now include percentage ownership in dozens, hundreds, or even thousands of appreciating buildings. These are the type of assets where, even if you don't have an active hand in managing them or

making them grow, would still continue to increase in financial value over time.

This fee-equity compensation is a very feasible approach for architects. With design work being done at the start of project development, developers are more willing to offer equity over cash as a means of payment at these initial stages of the process. Having an active role early on in the life of a project is a benefit that comes with being an architect, and one which not all service providers in the building construction industry can offer.

An architecture firm with astute business and financial partners, Board of Directors, or Board of Advisors can take advantage of this viable scheme to secure assets for the firm through an ownership percentage in the completed building or development. In addition, utilizing this fee-equity combination differentiates the firm in the marketplace and opens up additional opportunities for winning more projects.

Monetizing Intellectual Property

Architecture firms are always on the lookout for more projects to take on. However, the fact is that the award of design work also creates an immediate and long-lasting liability for the firm. Costs for labor, financing of slow paying invoices, general liability insurance, and perpetual liability on finished projects are all negative realities that the architectural practice has to deal with constantly. The trade-off is often a minimally-profitable, nonrecurring revenue. That's certainly not the type of work-income balance that architect-owners and partners have envisioned for their firms.

But there's a way of looking at these types of projects in a new light. The architecture firm and its leadership can approach the work required for each project and each client as an opportunity for paid Research and Development (R&D). Because that's what it essentially is. Try asking yourself the questions: *Are all projects the same? Do we produce the same plans or drawings every time?* Given the nature of architectural services, I'm sure the answer is a resounding *no*. Architects get to learn something new and produce something different with every completed project.

Architects must then recognize and take control of the rights of their design work, and treat it like the copyrighted intellectual property that it is. As we have discussed in [Chapter 11](#), every design and portfolio

piece is an asset of the firm and should be copyrighted and catalogued for future use by the firm, clients, and other designers. Monetizing this intellectual property creates new recurring revenue, nearly 100 percent profit margin, and is an asset on the balance sheet similar to machinery in a factory, software licenses, recording artists' masters, and finished goods inventory.

So while your profits on a finished contract may be minimal, you've added a vital asset to your firm that could potentially bring in multiple times more revenue. To turn this asset into new income, every architecture firm should establish and publish a "plan book" where clients can license the plans at a cost. Possible clients could be future homeowners who want an, architect-designed plan, but don't have the time to wait and the budget for a custom design. Another revenue-generating scenario is this: If the same client (a developer, e.g.) who initially commissioned the work wants exclusive rights to the design so that they are able to reuse it, you can sell it to them for a very lucrative fee.

There are many ways to continue earning from a single project. The firm's past work which may or may not have been highly profitable, now becomes an asset on the balance sheet, creating new revenue opportunities with nearly 100 percent profit margin, and achieving greater firm value. In addition, the portfolio plan book can also be utilized as a way to secure funding for expansion and other business opportunities.

In Summary

The process of determining the value of an architecture firm is complex, and one which may put the practice in an unfavorable light. This is because architecture firms may not have a lot going for them when looking at their financials, balance sheet, property, and assets. But the good thing is, the firm's worth doesn't have to stay that way. There are more than a few ways of boosting your firm's business value so that it is at its most advantageous position in case of a merger, acquisition, or sale transaction.

Conclusion and Resources

We sincerely hope that this book, *The Business of Architecture*, has given you a new perspective as an architectural professional and has inspired you with innovative ways on how you can be transformed from a designer to a bona fide business person.

The devastating effects of the most recent recession and the deteriorating influence of the architect over the past several decades have proven that a paradigm shift is required and must occur posthaste. We have tried to provide insight on how other industries operate and how they view the architect and architecture firms. We have also suggested ideas on how architects can learn from these other professions and how your own practice can change its scope from being a purely RFP-oriented firm to one that also actively pursues product—and sales—based revenue.

Most importantly, we've presented recommendations on how you can prepare your firm to be in the best position to be acquired.

When more architects begin to think beyond the limiting title of "Designer" then the profession will regain its relevance in the design and construction industry and among the public and clients as well.

Like most significant changes in any process, the transition won't be easy. But it's one that must be undertaken, and once we get through the hard part, the results will be well worth it.

Entities outside the architecture industry but in related fields have already begun to sell customers on product design concepts. For example, "Fashion Hotels" designed by Louis Vuitton, Giorgio Armani, Diane Von Furstenburg, and other famous names have opened around the world including Paris, Dubai, London, Bali, and Miami. Sadly, it is inevitable that these designers and others will further encroach on the architect's domain. Why? Because selling process is still the architect's strategy, while these business-savvy designers know that customers are clamoring for product-based design.

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If we don't quickly realize what is happening, the industry will be left out in the cold while others who have extensive marketing knowledge and the ear of the consumer will take over the design industry—including that of building design. If we don't take the initiative to make the change to a more contemporary revenue strategy, then someone else undoubtedly will.

For further information on product based sales for architectural works, please visit www.mydesignplans.com

For additional information on traditional firm management and operations, see the Resources listed below.

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