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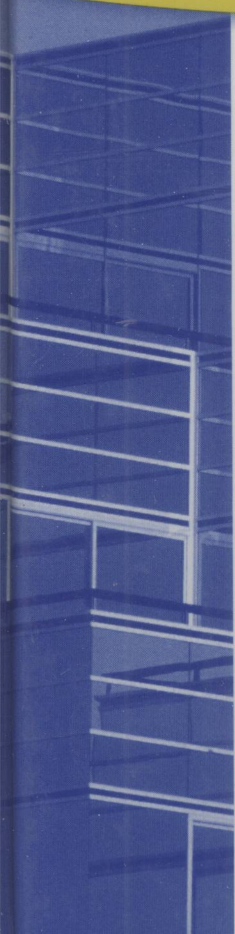
Architect's Essentials

of Starting, Assessing, and Transitioning a Design Firm



Peter Piven, FAIA
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with William Mandel

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WILEY
John Wiley & Sons, Inc.

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Published by John Wiley & Sons, Inc., Hoboken, New Jersey
Published simultaneously in Canada

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Library of Congress Cataloging-in-Publication Data:

ISBN 978-0-470-26106-4
ISBN 978-0-470-33973-2 (AIA Edition)

PRINTED IN THE UNITED STATES OF AMERICA
10 9 8 7 6 5 4 3 2 1

Architect's Essentials of Starting, Assessing, and Transitioning a Design Firm

Dedication from the original edition of
Architect's Essentials of Starting a Design Firm:

To Alf Werolin and Weld Coxe, who taught each of us to be effective advisers to others

To Lawrence Perkins, who passed on his wisdom and experience about starting a firm

and

To our wives, Phyllis Friedman Perkins and Caroline Piven, who supported us with this project even when it got in the way of family obligations

Dedication from the original edition of
Architect's Essentials of Ownership Transition:

THIS BOOK IS DEDICATED

to the design professionals whose inventiveness and dedication to improving the built environment has inspired our work with them,

and

to our wives, Caroline Piven and Christine Mandel, whose continued encouragement and support have contributed immeasurably to our writing this book.

—Peter Piven and Bill Mandel

oduction to the Edition

Brad Perkins and Peter Piven

This book combines two earlier books, *Architect's Essentials of Starting a Design Firm* and *Architect's Essentials of Ownership Transition*, on issues that architects and other design professionals face, first at the beginning and then later in their careers. The first covers the issues that one faces when starting a new design firm, and the other covers the issues surrounding the transition of the firm's leadership and ownership, either when the founders decide to expand ownership in the firm, generally driven by growth, or when they begin looking toward their own retirement. In between is a professional lifetime full of challenges.

Other books in the Architect's Essentials series cover many of the issues encountered along the way: marketing, presentation skills, winning proposals, contract negotiation, cost management, and professional development. One group of issues that is not yet covered in the series, however, is how to evaluate and make course corrections after the start-up period is over and a practice is established. This is the "what do we want to be when we grow up?" period that a firm's leadership faces when it is no longer dealing with the survival issues of a start-up. These are also the issues that a firm's leadership faces when they are contemplating the remaining years of their careers.

For some, these issues generate a professional midlife crisis. For others, a thoughtful analysis and action plan redirects the firm toward the leadership's most important long-term goals. In this introduction to the combined book, we suggest how to determine when it is time for a midcareer review. What are the essentials of such a review, and how have some other successful firms used this review as the platform for a period of positive growth and change?

The Start-Up Phase

The start-up phase is frequently characterized by a generally unplanned, "hand-to-mouth" existence. The founder or founders focus on the projects on hand and begin worrying about new work when the work on current projects nears completion. More thoughtful founders consider their capabilities, desires, and objectives and develop plans that include marketing for the kind of clients and projects they would like to work on and believe they have the ability to get.

If they choose to stay small, or are unable to secure a sufficient quantity of work that enables growth, that remains the pattern of their professional careers and future ownership transition becomes very difficult or impossible. If they want to grow and are able to secure work that allows them to grow, they typically add staff as volume increases, first professional/technical and then administrative. If growth continues, and the principal-to-staff ratio increases to approximately 1:11, founding principals generally find that the firm's marketing, management, client satisfaction, and project team leadership needs have outstripped their ability to do all that must be done to run the firm successfully. They start looking for partners.

The "Too-Small" Firm

The firm has reached the point where it has steady work for a staff of 12 to 15. In spite of good work and a lot of marketing effort, the owners find that they cannot get the next scale of projects, nor can they successfully sell their core areas of expertise beyond a limited geographic area because they are viewed as too small.

These owners have a critical decision ahead of them: To grow or not to grow, that is the question. If they opt to grow, then how can they do it? They are unlikely to be able to do it without some essentially different direction. One might be to elevate or bring in an owner who adds expertise in a different market sector, which might allow growth within the same geographic area. Another is to merge with a firm of relatively equal size, immediately creating a larger firm with similar or added capabilities. And still another is to establish an office in a new geographic location, either by starting one from scratch by sending an emissary or by merging with (or possibly acquiring, although that may be less likely) another firm. Each of these conditions implies an ownership transition of some kind.

The Stable, Midsize Firm

The firm is established in a limited area in or near a midsize city and has grown to 30 people; its workload and staff size are relatively stable. Sometimes the owners of such a firm opt to coast—to continue along the same path that got them where they are. However, the midlevel professionals who have become key to the firm's operations want the opportunity to grow and become owners, but the "pie" is too small to divide. If they do not see a future, they threaten to move on.

The owners can risk the loss of key midlevel professionals, which will inhibit their ability to continue to run the firm successfully *and* deplete the ranks of potential future successors. On the other hand, they could choose to begin transferring ownership interests to others. Although "dividing the pie" into smaller slices may be uncomfortable at the beginning, it keeps key professionals, preserves future retirement opportunities, and may create new energy that could lead to growth and/or success in new areas. If the owners proceed in this way, the most important thing for them to consider is identifying those "rising stars" that they see as having the best potential to lead the firm successfully in the future.

The Project Opportunity Elsewhere

The firm gets a major, high-profile project in another region. Is this project the platform to open a second office serving a second region, or should it be treated as a one-time event?

Here, the owners are faced with a critical decision about the essential nature of their firm: Will they remain a one-location firm, or take the first step toward a multioffice practice? If the latter, then the same questions arise about how to achieve it, albeit with beneficial new conditions that are driven by the project itself. Project fees will fund the start-up, either partially or entirely, and there will be a need for the staff necessary to execute the project, to whatever degree and at whatever level the firm decides.

Even so, if the new office is to be successful beyond the initial project that created the opportunity to open it, the owners must be mindful of putting a leader in place—an emissary from headquarters, a leader recruited in the new location, or a leader in a firm identified as a potential merger candidate. All these conditions imply ownership transitions.

Investment in the Future

The firm has been doing well and cash flow has improved to the point where the principals have the choice to take some excess money out for their personal use or to use the firm's reserves for an investment in growing the firm. The temptation may be to buy the country house or some other long-desired purchase that was deferred by the demands of a young firm. But will an investment in developing a new market, a new office, a new principal, an aggressive public relations effort, an acquisition, additional technology, or a stronger staff offer the opportunity to achieve more of the firm's long-term goals?

Ambitious firms often continue to defer the principals' personal interests in order to pursue their professional ambitions. The gamble of a firm's financial reserves often complicates the eventual issue of ownership transition by depleting the cash necessary to fund the founding principals' retirement. Nevertheless, ambitious plans usually require the willingness to invest.

Self-Assessment vs. Professional Goals

The firm has prospered but has not reached the position in the profession that the founders once dreamed of.

In a principal retreat at a resort that helped create a relaxed atmosphere for introspection, the founders were able to be candid enough with each other to agree that they could not get to the first tier on their own. They were missing some of the skills—particularly in design—necessary to achieve their goals for the firm. How do they fill this hole in their firm's leadership?

One way is to recruit and develop younger staff until they can provide the necessary new leadership. Another is to merge with a firm or to acquire the necessary leadership. The first brings up strategic, long-term transition issues, while the latter makes these issues a tactical, short-term concern.

Divergence of Interests and Goals

The firm has become established, but the founding principals are finding it increasingly difficult to agree on fundamental aspects of the practice—for example, design, their respective roles, promotions, and the long-term goals of the firm. The problems have become so serious that they are hurting the firm's performance.

The leaders of a firm do not have to be close friends (although it helps), nor do they have to have the same personal goals, but it is important that they share values and agree on the core vision for the firm and on their respective roles. Mutual respect is also critical. Shared ownership of a design firm can be an inherently unstable relationship. It has many of the stresses of a marriage without some of the glue (such as children) to keep the leaders focused on common goals.

Unfortunately, it is quite common for the founding principals' interests, energy level, and vision for the firm to diverge over time and for this to lead to conflict. If the conflict cannot be resolved, it may be necessary for one or more members of the firm's leadership to leave. This, too, brings forward many of the issues on ownership transition covered in this book.

Crisis

The firm suddenly runs into a very bad patch. The firm is losing money, the cash reserves are depleted, key people want to leave, new work is slow in coming in, construction problems have resulted in serious lawsuits. The future looks grim.

All firms have bad moments, but the best ones find a way to get through them. Firms, and their leadership, usually get along fine while things are going well, but the real test is a crisis. Well-managed firms know that one or more bad periods are inevitable and plan for them. Some parts of the plan may include building financial reserves, pursuing marketing efforts in building types that are less vulnerable to economic cycles, and conducting an open discussion of how the firm will respond to a severe problem.

Crises in professional organizations always impact the owners/leaders and frequently foment ownership transition issues. Crises start people thinking about retiring, selling the firm, getting rid of partners, and so on.

Practice Abroad

A foreign-born employee decides to return his native country and soon calls a principal to see if she will work with him to pursue and do projects in his home city. Does the firm stay local or does it take on the additional challenges of association with others and international practice?

This opportunity adds new wrinkles to the fabric of opportunities. Should the former employee simply be an independent representative, possibly with a consultant contract of some kind? Should he join the firm as a principal in order to properly represent the firm, have the firm's needs at heart, and have a stake in the future rewards he or she helps makes possible? If the employee has developed a firm of his or her own, should that firm be merged or acquired? Or should a joint venture be created so that each firm's interests are respected without encumbering either's current ownership or future obligations?

Some of these have important ownership transition implications, others not.

Merger Consideration

The principal is approached by a principal in another firm of comparable size to discuss the possibility of merging. Merger means loss of absolute control and working with another (likely) strong partner or partners. Does this move the firm closer to its long-term goals, or does it just complicate life? Possibly both!

If the principals want to grow their firms, then merger is a transaction that creates a larger firm—instantly, and with little or no cash required. The important distinction between a merger and an acquisition is that a typical "merger of interests" is accomplished without cash changing hands. The two firms pool their assets and liabilities. The owners own the increased value of the merged firm proportionally; each owner owns the same value the day after the merger as he or she did the day before.

Although the predominate reason for merging is to create a larger firm that is more competitive in the marketplace, there are others, including market and staff diversification. Also, for a firm with principals who are beginning to think about their own retirement but who do not feel they have potential successors in their firm—younger professionals who they believe have what it takes to run the firm successfully—merger with another firm that has potential successors provides an exit strategy they would not otherwise have.

Loss of Clients or Market Share

Firms that have grown and prospered can still lose clients or market share in many ways. Clients can get into financial trouble. They can be acquired by larger firms in which facilities' decisions are made by a different group of people. They can have fulfilled their capital expansion programs. Their facilities decisions may have been made by people with whom you had solid relationships but who have retired. They can choose to seek other design professionals, for good reasons (e.g., different capabilities or proximity) or not. Regardless, firms can lose access to clients they have depended upon and need to replace. What can be done?

Of course, the principals can apply their knowledge, experience, and energy to pursue new clients that might consider them. But suppose the principals have lost touch with the marketplace. Perhaps they've rested on their laurels—relied on the clients with whom they had relationships. Perhaps they're tired. Perhaps they're not age-contemporaneous with the current client decision-makers. What then? They can transfer ownership to professionals who are experienced, eager, and energetic and who are more likely to be successful in connecting with prospective clients.

Death, Disability, and Retirement

Although design professionals tend to love what they do, sooner or later they either choose, or are required by their agreements, to retire from ownership, or they become disabled or die. If they consider such eventualities sufficiently early in the life of the firm, they can provide for a gradual transition of ownership to others who will acquire their ownership interests and continue the firm. If they haven't, then an ownership transition of another kind will occur. Either the deceased owner's estate will sell the firm to others, possibly others in the firm, or the firm will be liquidated—a less desirable and less effective solution for all.

The scenarios introduced above are just some of the more common issues that leaders of a design firm face over the life of a practice. This is not intended to be a comprehensive list of these issues, but they do highlight many of the most serious, as well as many of the most common.

As the material covered in this book illustrates, except for unanticipated opportunities, most of these issues are best approached with a plan. The same argument that we make to our clients about the need to begin with a plan before building also applies to starting, building, and managing a practice. Chapter 9 of *Starting a Design Firm* outlines our recommendations for the major elements of such a plan.

You will know where you are going and you will be better able to measure your progress in getting there if you have a road map—a destination and a route. A plan will help clarify how you want to start and how you want to grow (that is, *if* you want to grow). Planning implies envisioning and articulating a desired future, and then identifying the action steps you will take to achieve it, along with the responsibilities and milestones that will help you actually take the steps you believe necessary. You don't need to look 30 years into the future; 3 to 5 years will do just fine.

We wish you much good luck as you proceed!

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