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INCREASING MARGINS

Not Having a Recession Contingency Plan Is Top Pitfall to Surviving Today's Economy

Recessions are not new to the A/E/C industry. It has seen recessions of varying degrees in the early 1970s, the 1980s, the 1990s, and the early 2000s (after 9/11), and there are common pitfalls in the ways that firms have dealt with these recurring situations. At the top of the list of pitfalls is not having a recession contingency plan in place, according to David Burstein, PE, of PSMJ Resources. Those firms without a plan can only hope that the recession doesn't last too long or become too deep; if so, it can mean the death of the firm altogether. The next mistake is casting too wide a net in business development once work starts to slow down. The result is that you lose focus, write too many low-probability proposals, and spend too much money on losing proposals

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EXERCISING LEADERSHIP

Expert Questions Nonprofessionals' Absence From Design Firm Ownership

What are the spoken and the unspoken rules and regulations that guide ownership of design firms? What shaped this special category of business, and why does ownership seem to rest only in the hands of licensed professionals? These are questions that Joan Capelin, FSMPS, Hon. AIA, Fellow PRSA, asked of firms, management consultants, professional associations, lobbyists, and attorneys, and the situation, frankly, did not make sense to any of them either. Ambitious people always move ahead, and people who bring in the work always get a piece of the action or advancement, yet ownership of A/E firms is still almost always limited to licensed professionals. So the question has to be: Why do the best nonprofessionals want to work in design service firms if they can't get that access and recognition?

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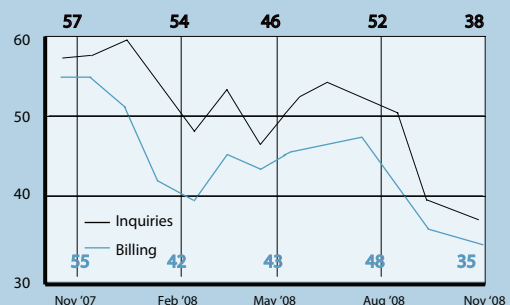
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(Source: American Institute of Architects)

"Which ones will help rebuild the firm for the next upturn?" This will determine who you will need to hang on to for the good of the firm.

Criteria for your overhead contingency plan. The last segment of the recession contingency plan concerns the firm's overhead. Here, Burstein advises, you should focus on the largest controllable overhead expenditures. For example, don't waste time deciding which office supplies you can cut out. The biggest controllable overhead dollars by far are in indirect labor. This is followed closely by office space, and of course, all marketing functions that are nonbillable. Bernstein suggests that you should benchmark your labor chargeability on a dollar basis, not on an hourly basis, as staff and principals have different hourly rates. Benchmark the cost of your office space on the cost for firms your size, geographical area, and specific markets.

You might not think that you need a recession contingency plan, but leaders are not predicting a fast recovery this time around and just by going through the process, you'll be better prepared for any eventuality. □

Source: PSMJ Webinar "Succeeding in the Current Economy, Part 1." For more information on the Industry Market Trends Webcast, visit www.psmj.com/training/products.aspx?v=item&i=1089.

Exercising Leadership

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Furthermore, if the way is not blocked, then how come there isn't a different composition of firm partnerships? These questions are barriers not only to individuals, but also to firms. Capelin presented her findings in Part 1 of a presentation at the SMPS/NY program, THE Marketing Event, along with James E. Frankle, Esq. whose Part 2 will be in next month's issue.

The first question is: *Can it be done?*

The legal, customary, and cultural side of design firm ownership has taken 150 years to get to the state it is in now, and things have become more complicated than they need to be. Licensure is a state's way of protecting the public health, safety, and welfare. It pertains to individuals, not their firms, and breaking this law can result in criminal or civil liabilities. State licensing laws dictate how a firm will provide its services, how it may be structured, how firms outside the state may practice in that state, and most importantly, who may be part of the firm's ownership. Various professional associations have attempted to get their legislatures to change or loosen some of the restrictions to make it easier to ease the sale of the firm on the exit or death of the owner, to permit more mobility within the firm, and to provide a wider range of service.

In New York State, for example, after 20 years of fighting, it is possible that next year a new law will get through the legislature that will allow 25 percent of a firm to be owned by nonlicensed professionals. There are certain older engineering companies that already have nonlicensed professionals as owners, but they were grandfathered in prior to 1935 (and there are only 55 to 60 of these at last count).

Many states do permit professional service firms to be owned in whole or in part by nonlicensed people, provided certain requirements are met with the licensed people within that firm. Visit www.ncarb.org for architecture and www.ncees.org for engineers to find more and up-to-date information on the dynamics and details within each state. The status is constantly in a state of flux, and the information you find must be checked by legal counsel.

The restrictions for allowing architects who are nonprofessionals to become own-

ers must be checked with the state board. For engineers, it varies from state to state but generally stipulates that one or more owners or principals must be licensed; the person in charge of the professional work must be licensed; the managing agent must be licensed; a corporate officer must be licensed; two-thirds of the firm's principals must be licensed; the firm must have one full-time PE on staff; and for states such as New York, all principals must be licensed for both architects and engineers.

The next question is: *Should you consider becoming an owner?* The non-licensees consist of the firm's CFO, COO, CMO, the head of IT, HR, corporate counsel, marketing directors, MBAs, and public relations directors, to name just a few. A firm's legal structure may meet the business needs, whether it's a corporation or limited liability partnership, but there still needs to be transparency as to the ownership if it is not in a state that prohibits those other than licensed professionals from being owners. There are other business arrangements, such as holding companies, grandfathered corporations, and phantom shareholders, who may be owners without actually working in the firm.

Why would a nonlicensee want ownership of a professional services firm? Some of the pros of ownership include a share in the profits or a higher income, more responsibility, additional authority, respect within the firm, access to financial records and strategies of the business, and other benefits. Of course there are cons to consider, such as fear of the risk of investment, the possibility of not getting a bonus, the restrictive employment and confidentiality agreements, and the cost of financing the stock purchase.

Capelin asked, "What is the holdup all about?" Some firms simply don't want non-

licensed people as owners; it is part of their culture. Despite the AIA's efforts to promote an integrated design practice (IDP) model, where collaboration among disciplines and vendors is crucial, many firms have a prejudice about letting others in, still have silos, and are compartmentalized. Other firms restrict ownership to a small group, and some will issue non-voting stock to those not in the profession. Some simply don't have a route to the top of the organization chart. Other obstacles to ownership include a lack of training in leadership and strategic and business skills. Of course, to buy in, you will need cash, a bonus or other gift from the firm, or a loan from the firm's bank.

There are numerous examples of nonprofessionals becoming owners of design firms, such as Dianne Creel, one-time marketing director of CH2MHill, then CEO of Earth Tech, then owner of her own company, Ecovation. Other nonprofessionals include Mitch Levitt, president/CEO, Karlsberger, owner; Julie Luers, vice president/director, marketing, HGA, shareholder; Gary Miller, CEO, Cannon; Bob Packard, senior managing partner, ZGF, partner; Randy Pollack, principal/CMO, Walter P. Moore, shareholder.

The skills you need to be considered an owner consist of the following:

- Know the business of design;
- Become critical to the success of the firm;
- Think and act strategically;
- Master interpersonal skills and communication;
- Demonstrate emotional maturity;
- Show fortitude and good character;
- Be willing to work long hours;
- Earn respect in the firm and industry;

- Commit to the firm's core values; and
- Show unquestioned loyalty and dedication.

It is necessary to have the qualities of leadership, such as the ability to handle pressure and understanding how to treat others while earning confidence within the firm, to name a few.

At the SMPS meeting, Capelin, well-known for her love of hats, donned a cap symbolizing Merlin the Magician and asked firms to visualize themselves as they are now (Stage 1) and as they will be in the future (Stage 2). She pointed out the characteristics of Stage 1:

- Steady increase in experience and knowledge;
- Steady advancement in titles and wages;
- People seek your services and comments;
- Ability to keep ahead of the curve; and
- Steady income and a good chance at longevity.

This is the professional firm that we all know and have respected. But for a moment, think about the shrinking pie, the very unstable economic situation. Then think what your firm can become if you

imagine the future—just five years ahead, to 2014. Now who are you? What kind of a firm are you? Merlin's unique ability was to be able to visualize life backwards, living in the future and looking back. Here's what your firm can become in Stage 2:

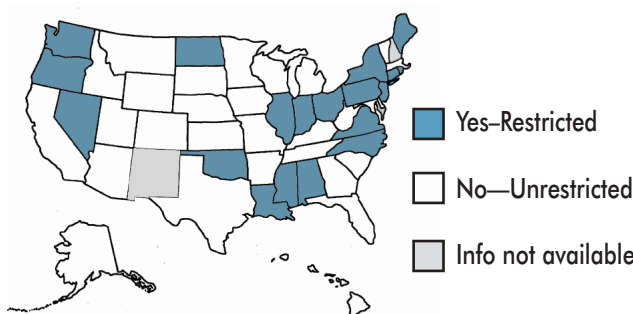
- Multidisciplinary practice;
- Nonlicensee equity practice;
- Thought leadership;
- New service lines;
- More income;
- Higher level of practice;
- Bigger market share;
- Limited commoditization; and
- Enjoy respect and value in the eyes of clients.

There is a lot to like in Stage 2, and you as leaders can take your firm there.

Capelin's presentation was taken in part from her white paper "Resetting the Horizon Line: The Ultimate Career Step for Marketing Professionals," prepared for the SMPS Foundation, which can be downloaded free from www.smpsfoundation.org under Research White Papers. □

Part 2 of this article, "Value Creation and Ownership by Nonprofessionals," presented by James E. Frankle, Esq., will appear in the next issue.

Architecture Firm Licensing



Engineering Firm Licensing

