

# Coping with Business Cycles

Contributed by the editors of *AIArchitect*

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## SUMMARY

Three firms, Sorg and Associates, PC; Ross Barney + Jankowski; and The Freelorn Group Inc., offer advice on how to gain momentum in a booming market and how to survive in a bust market.

## BACKGROUND

After a decade of strong growth, pundits at the turn of this century were proclaiming a “new economy”—an economy driven by productivity gains created by technology investments that would be recession-proof. By the end of the first quarter of 2001, everyone knew the pundits were wrong.

For the construction industry, economic cycles have historically been more pronounced than for most other sectors of the economy. During the economic downturn in the early 1990s, the overall economy declined only in 1991 and only by 0.5 percent. By contrast, nonresidential construction activity, as measured by construction contract awards, saw constant declines between 1990 and 1992, with double-digit declines in 1990 and 1991.

On the other hand, construction activity typically outperforms the broader economy during economic expansions. Between 1993 and 1999, the heart of the last expansion, annual growth in the economy averaged 3.7 percent. At the same time, nonresidential construction contracts showed an average annual growth of 8.5 percent. Nonresidential construction saw a modest decline in 2000 and a steeper one in 2001, even while the overall economy avoided annual declines.

In the end, there is no single formula for riding out boom and bust cycles. Firms survive deep swings in the economy through some alchemical combination of business savvy, careful planning, and luck. Firms have to examine their own situations—with their strengths and weaknesses—and figure out how all the different pieces fit together. Determine the building types and clients you want to work with, the marketing commitments you can make, and the size of firm you want. Create a tailored set of strategies

that will help your firm generate a cushion in a recession.

As examples, we submit the three case studies below. Each firm has survived recessions and thrived in a boom. Here are their stories.

## SORG AND ASSOCIATES PC

This AIA Honor Award-winning, woman-owned firm in Washington, D.C., employs 40 people, including 8 architects and 25 nonregistered designers. The firm does a great deal of federal government work, with services ranging from architecture and interior design to urban design, historic preservation, and planning.

The firm began small in 1986, accepting almost any project it could get, cutting fees to be competitive, and keeping overhead low. Today the firm has a rich mix of projects, an attractive Web site, and substantial media attention.

**Boom strategies.** Suman Sorg, FAIA, established an optimum firm size whereby she could supervise design quality directly. “Having only one principal limits the size of the firm,” she observes. The firm now pursues larger projects with longer production schedules, including schools, affordable housing, embassy additions, renovations, and new facilities. Some of her boom-time suggestions:

- Get bigger office space with a better layout for increased efficiency of space.
- Get a longer commitment on an office-space lease.
- Increase the firm’s line of credit and increase fees (she does acknowledge, however, that there is a limit to what clients will pay even in boom times).
- Step up marketing, including getting projects published in professional and client magazines. “Invest in marketing staff, increase marketing to explore new and more active markets, and spend more on brochures and other marketing material,” she says.

- Know to quit pursuing a market or client if you do not succeed after several tries. If the perception is that you don't have enough experience, build up your portfolio in that area.
- Use management consultants, who can help you outsource noncore services, streamline your operation, and organize growth.

About attracting and keeping employees through benefits and bonuses, Sorg offers this advice: "Expanding benefits is a lot easier than cutting them back, so you have to be really careful not to go too far. Benefits seem to be a more sensitive area than salary for employees."

**Bust strategies.** For coping with difficult business times, Sorg suggests the following:

- Reduce operating costs
- Shop around for new vendors
- Keep old clients happy
- Sublease part of the firm's office space
- Reduce fees to stay competitive
- Lay off nonperformers, spend more time training staff, combine administrative functions, and contract out administrative functions such as accounting, information technology, and personnel management
- Take time to update resources you will need when business picks up again, such as the CAD details library

"There are bust times and there are bad bust times," Sorg says. "It is important to know when the dip is shallow or deep. Letting people go too early can be bad, but holding on to them too long can be worse. So we only hire or keep staff for projects under contract or at least in the fee-proposal stage."

Getting work published remains important to Sorg, especially in business and construction newspapers and magazines read by clients. Reducing marketing staff and doubling up marketing functions, such as proposal writing, can also help a firm survive a market downturn.

#### THE FREELON GROUP INC.

A 42-person architecture, interior design, and planning firm in Raleigh-Durham and Charlotte, N.C., the Freelon Group was established in 1990, just before the last recession. Designing primarily educational and other institutional projects (90 percent of its work is public), the firm also works in the residential, commercial, and health-care sectors.

Philip G. Freelon, AIA, has steadily increased the size of his firm over the past dozen years.

**Boom strategies.** During the 1995–2000 boom period, the Freelon Group used these methods to grow the firm:

- Added new principals and shareholders
- Created two design studios
- Opened a satellite office
- Hired only full-time professional staff, including a CPA controller
- Upgraded its benefits package, agreed to hold salary reviews more often, and adopted a flextime schedule
- Used its Web site as well as AIA and university contacts to identify and attract talented people

The firm planned to expand its project expertise by adopting these goals:

- Increase private-sector work
- Become more selective about projects
- Strengthen client relationships by conducting an independent and anonymous client survey, increasing client communications in general, and using client contact-management software

**Bust strategies.** Achieving its initial growth in a recession developed good business habits, Freelon believes. The firm continues to keep track of revenues and expenditures and considers carefully the financial impact of every decision. In a bust time, the firm would take these approaches:

- Increase public-sector work
- Be less selective about clients and projects
- Pursue work outside of niches
- Step up marketing efforts, enlisting the help of underutilized staff
- Form strategic alliances with other firms to expand its pool of project types and clients
- Consolidate studios and let nonperforming staff go
- Hire and "stockpile" excellent people, even if not needed immediately
- Consolidate administrative functions, reassign professional staff, and share work with satellite offices

## ROSS BARNEY + JANKOWSKI

Founded in 1981, RB+J now has 45 employees, including 18 architects, doing institutional and public work. The public sector kept RB+J, an AIA Honor Award-winning firm, in work during the last recession until it faced a sudden freeze on all state work in 1993. Taking immediate action, the firm cut one-third of its staff of 33 and furloughed another one-third. (By 2001, the firm had again grown to more than 50 staff members.) Facing another slowdown, the firm principals have instituted safeguards to help it survive another possible dip in the economy.

“Not too many eggs in one basket,” says firm principal James C. Jankowski, FAIA. With 90 percent of the firm’s work in the public sector, this means a diversification into federal, state, and local work—with that work, in turn, diversified into libraries, health and human services departments, and aviation and bridge authorities.

RB+J tracks personnel needs weekly. Managing principals are always walking a tightrope between staff and work levels, Jankowski says. In busy times, a project delay can be a relief as you scramble to find qualified project-team members. In a slow time, if a project is stalled, staff has no work and you have to find some. “In down times it is a challenge to keep quality people who have been trained and are familiar with your software and systems,” he says. “Yet firms can get hurt by holding on to their employees too long.”

The firm invested in a Web site to serve these purposes:

- Getting work by giving potential clients a good idea of the firm’s projects—both completed and in design stage—through posted drawings and as-built photographs.
- Attracting talent to the firm by announcing the firm is always looking for talent.
- Communicating with owners, consultants, and contractors through project-specific Web sites. This makes communications among project team members easier, faster, and more accurate and gives every member of the project team access to critical project information.

“We have always had strong marketing. Even when we were a six-person firm, we had a marketing coordinator,” Jankowski reports. At small firms, marketing often falls by the wayside if it is the responsibility of a design principal and he or she gets too busy with design and other tasks. Now the marketing director at RB+J is a principal with ownership in the firm.

## LESSONS LEARNED

Each firm has had different experiences and has had to capitalize on what works for its firm specifically. Overall, it seems in a boom economy it is important to increase marketing, hire great staff, and expand operational support. In a bust economy firms say it is important to look to new market niches, keep old or current clients happy, and let go only the least effective employees being cautious to not lose quality staff.

## RESOURCES

### More Best Practices

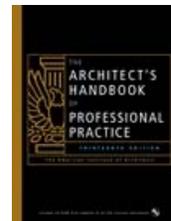
The following AIA Best Practices provide additional information related to this topic

- 08.03.01 Financial Management: 10 Key Performance Indicators
- 08.05.01 Obtaining Bank Credit

### For More Information on This Topic

See also “Coping with Business Cycles” by Pradeep Dalal and Kermit Baker, PhD, Hon. AIA, *The Architect’s Handbook of Professional Practice, Update 2003*, Part 1, page 15.

See also the 14th edition of the *Handbook*, which can be ordered from the AIA Bookstore by calling 800-242-3837 (option 4) or by email at [bookstore@aia.org](mailto:bookstore@aia.org).



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### Keywords

- Practice
- Marketing