



AIA Best Practices: Starting a firm: basic financial principles

Contributed by Peter Piven, FAIA, and Bradford Perkins, FAIA Excerpted from Architect's Essentials of Starting a Design Firm

Summary

Starting a firm requires careful planning. The development of a business plan is a good place to begin. Ten elements of developing and executing a successful business plan are included.

Underlying principles of a good business plan

Planning is essential to success in business. Good planning does not guarantee success, but it greatly increases the odds. Excitement, enthusiasm, and talent, while important ingredients of success, are not enough. Ten principles must be kept in mind when formulating and executing a business plan:

- It is possible to make a reasonable living in your own practice, but it cannot be done without careful financial management. If you wish to achieve your dreams and enjoy the fruits of your labor and intellect, you have to pay attention to the bottom line at all times.
- The core of financial management is knowing your costs, knowing your revenues, and keeping the two in proper balance. This may seem obvious, but it is easily and often neglected.
- A business, particularly a small business, lives on cash basis accounting but can die if accrual basis accounting is ignored. You must know, understand, and monitor both.
- Profit margins in professional service firms are both narrow and limited. It is easy to lose more money in one month than you make in six months. Maximizing your profit margin is vital. The easiest way to increase one's profit margin is to reduce one's overhead. For new firms, low overhead can be a major competitive advantage.
- You don't know everything, and you can't do it alone. Sooner or later, professional expertise becomes essential. Fortunately, the help you need is often readily available. Among the resources you will need are a bookkeeper, an accountant, an insurance broker, an attorney, and a tax advisor. Remember that in your relationship with these experts, you are the client. Take the time to identify experts who understand your business, want you to succeed, and can help you grow.
- Limited profit margins make design professionals vulnerable. Good contracts and careful contract negotiation will reduce this vulnerability.

- Doing something for nothing will not pay the rent or put food on your table. Some things are worth doing for free or for low rates, provided they help build toward a long-term goal. But don't kid yourself about it. All too often, the decision to provide professional services at little or no cost, in the hope of "getting the job," is made without serious consideration of the cost and risk. If you agree to give your services away with little forethought, don't complain later if it does not produce the desired results, as you alone are responsible. No one can take advantage of you without your consent.
- Firm, friendly, and consistent pressure is necessary with most clients to ensure timely payment. Accounts receivable are not money in the bank; they are more like dead fish, which do not improve with age. The money is owed to you—do not be shy about collecting it.
- Adequate working capital is critical. Cash flow is the most pressing problem for small businesses and can become all-consuming, causing you to make poor decisions focused on the short term.
- Remember Pharaoh's dream: If you have seven fat years, save for the seven lean years. They will come.

This article opened with a value proposition: to share 10 principles for formulating and executing a business plan. How many principles are listed above? Did you count them? Are there 10, as promised? Get in the habit of analyzing every business proposition and determining whether the value received is at least equal to the value expected or promised.

About the contributor

This article is excerpted and adapted from *Architect's Essentials of Starting a Design Firm*, by Peter Piven and Bradford Perkins. Written by two leading experts in the field, this valuable resource addresses all aspects of starting and maintaining a successful design firm.

The AIA collects and disseminates Best Practices as a service to AIA members without endorsement or recommendation. Appropriate use of the information provided is the responsibility of the reader.

About AIA Best Practices

AIA Best Practices is a collection of relevant, experience-based knowledge and expert advice on firm management, project delivery, contracts and more, aligned with the *Architect's Handbook of Professional Practice, 15th edition*. See the full AIA Best Practices collection at aia.org/aia-best-practices.

This article corresponds to:

Architect's Handbook of Professional Practice, 15th edition Unit 1 - The Profession
 Chapter 07 – Financial Management
 Section 02 – Financial Management Overview