AIA Best Practices:
Business planning for small-firm owners

Contributed by the AIA Knowledge Resource Staff

Summary

The management of people, projects, and finances can often seem like a juggling act. When you include clients, liability, builders, and the intricacies of design, it is easy to understand why many architecture firm owners struggle for work-life satisfaction. Unfortunately, coupled with management struggles, small architecture firms often are plagued by low profitability.

Rena M. Klein, FAIA, believes it does not have to be this way. Owners of firms that specialize in residential architecture can have high profits and high job satisfaction, but they must plan for it, says Klein, one of five presenters at the October 2007 “Full Spectrum Practice” symposium in Chicago, sponsored by the AIA Custom Residential Architects Network.

Plans, models, and assessments

Architectural firms operate in an unpredictable environment where anything can happen at any time. Management in such environments is possible by noticing recurring patterns and providing self-aware leadership, Klein contends. If you take the time to understand what works in your firm, where bottlenecks exist, and where job satisfaction stems from, you are more likely to manage the firm effectively. The first priority is to think strategically and engage in business planning. A written business plan is important, but often ends up gathering dust in a drawer.

Ideally, a business plan is more of a process than a product, with constant tracking and adjustments. Aspects of business planning include a purpose and business model, a financial plan, an operations plan, and a marketing plan.

The three traditional business models for architecture firms are efficiency-based, expertise-based, and experience-based.

Efficiency-based firms operate with a streamlined process focused on repetition and limited design. Examples of efficiency-based firms are big-box store architects, chain-restaurant architects, and tract-home architects. These kinds of design projects rely on repetition, with little expertise required. This is the one-size-fits-all approach to practice and is heavy with interns and drafters, with few principals.

Expertise-based firms sell their name or their knowledge of a specialized design issue. Expertise-based firms may be able to bill for higher fees because of their expertise in technical areas such as acoustics or historic preservation. “Star” architects use an expertise-based business model as well; they can charge higher fees for their name and reputation. Expertise-based firms are top-heavy with principals and high levels of experience, with few interns on staff.

The experience-based model is most common for residential architecture firms. Firms sell themselves on "We've done this before; we know how to do it." The experience-based model allows for the most balanced staffing: It requires interns, project architects, and principals. The one problem for this type of business model is that it does not automatically lend itself to high profitability. For a successful firm, projects must be managed well and the variety of staff experience levels used effectively.

First, evaluate firm operations

Once the business model is understood, firm owners must observe firm operations from an outside perspective. Small-to-midsized architecture firms require a critical assessment of operational success and failures from an objective standpoint. To discern what works, develop a flowchart for a typical project. Answer questions such as: At what point is the principal engaged? Who is directing the flow? Does the project stall when someone is out of the office?

Once you have charted this process, consider where is the principal needed. What can be changed?

Most important, think about what works and what doesn't work.

Make a distinction between routine work and non-routine work. Take routine tasks away from the principal. Because the principal's time is worth more (in billing potential) than the time of lower-level staff, find ways to delegate the routine tasks and processes. Klein suggests the following changes:

- Set regular meeting times for communication between principal and project architect.
- Make the quality-review process routine and ongoing throughout the design process.
- What happens when a prospective client calls? Make this process routine, know who will take the call, and standardize the information requested and given.

Next, revamp your project-management model

Small-to-midsized firms generally default to a principal-led project management model. This is a pyramid model with the principal at the top and usually no more than six employees underneath. The principal-in-charge performs all the scheduling, tracking, client contact, and project management tasks. All information and all decisions pass through the principal. This method can be inefficient, may limit firm growth, and often stifles staff creativity and sense of responsibility.

The alternative to the pyramid model is the matrix model of project management—staff members other than principals are the project managers. Studies have shown that architects cite autonomy and opportunity to design as critical elements in job satisfaction. By sharing the project lead position, you may improve organizational morale.

Other aspects of the matrix model include:

- Principal leads project phase of choice, maybe schematic design, and/or quality review.

- More than one person knows what is going on at each phase of a project.
- If principal goes away, the project can continue.
- Principal will have more time for firm development.

Now, make money

This operational assessment will help efficiency to improve profitability. Similarly, appraise firm finances. Look at income over time and find business cycles and trends. Are the ups and downs a consequence of the greater economy, or are they internal? You want gross income to grow and expenses to remain steady and low. If expenses grow along with income, you are not making more money.

Don't make staff or office decisions based on one good year or one bad year. Observe the trends. If you are on a negative trend, it may be time to make some changes. This is the time to review operational models and project flow.

Create your ideal firm

There is no rubber-stamp process to improve firm performance and profit. Instead, improvement comes from a combination of the processes mentioned above. Firms can be managed to satisfy the owner in terms of profitability and career contentment. Big decisions cannot be forced top-down in small firms without pushback from employees. Empower staff to help with firm change and you can have high profit and high satisfaction.

About the contributor

Rena M. Klein, FAIA, is principal of RM Klein Consulting, a Seattle firm offering meeting facilitation, business planning services, and management education to architects in firms nationwide. She is a lecturer at the University of Washington College of Architecture and Urban Planning and at the Washington State University Interdisciplinary Design Institute, where she teaches leadership, ethics, and management in design practice.

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.

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