



## AIA Best Practices: Opening a branch office: Criteria for consideration

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### Summary

Opening new branch offices or purchasing a firm to facilitate the expansion of a practice can be an expensive and risky endeavor. The purpose of the following listing of criteria is to provide a basis for facilitating discussions and decisions regarding the opening and/or closing of branch offices.

During the development of this Best Practice, the book *Art's Principles: 50 years of hard-learned lessons in building a world-class professional firm* (Wilson Lafferty, March 2015) was published about the life's work of Art Gensler, the founder of the design firm Gensler. We decided to add some of his quotes and personal anecdotes from that book to bring some of his insight and experience to bear on the topics at hand. We will start with the following quote to set the stage:

**PULL QUOTE:** "Entering a new market is risky business. I see many companies rent offices, hire staff, and set up full shop before they have any business in the door. This is both expensive and speculative. In other words, it's dangerous." – Arthur Gensler

The actual criteria for opening and/or closing of branch offices will be different for each company. The intent of this resource is to provide a tool to allow firms to make better decisions in regard to where and when to open an office. While the following list of criteria is not organized in order of importance, some combination of the conditions described below should exist in order to open an office in a new location.

### Capable leadership

The single most important factor in the success of an office is the quality of the leadership. A new office may provide an opportunity for the relocation of existing experienced staff and the promotion of less experienced staff into positions of additional responsibility. In either case, no office should be opened unless the firm can identify a leader or leadership team with the following capabilities/characteristics:

- proclivity for business development and an entrepreneurial instinct; a desire to build something
- a successful track record leading business development efforts
- participates in community, industry, and professional organizations
- outstanding communication skills

**PULL QUOTE:** “Plainspoken and direct is the style you want in a leader—someone who knows how to simplify complex ideas and clearly communicate priorities. A leader can have all the other attributes and skills required, but without the ability to clearly communicate, they will fail. If you have a strong candidate who is deficient in communication skills, get them into a training program to improve this ability.” – Arthur Gensler

- reasonable synchronization between cultural values of other people in the firm—both culturally and professionally
- enjoys and seeks responsibility
- demonstrates the ability to effectively utilize the firm’s resources
- provides a role model for leading projects that meet the firm’s financial standards
- capable of leading teams that produce legacy work
- demonstrates integrity that produces professional and managerial credibility – afforded respect of people in the office.
- a willingness and ability to make the necessary decisions to contribute to the successful running of the office

**PULL QUOTE:** “Leaders make big and small decisions day after day. Some decisions will be easy, while others will be difficult. You need to be a leader or to appoint leaders who seek clarity and are confident decision-makers. All leaders must be accountable for their decisions.” – Arthur Gensler

- the capability to recruit and hire exceptional staff, and understands the importance of monitoring and contributing to the collective spirit of the staff
- an acceptable time frame to retirement and possible exit from company
- a client service mindset

**PULL QUOTE:** “Building a brand means focusing your energies on establishing trust with clients. Trust signals that you are client-focused, consistent in quality, and exceptional at service.” –Arthur Gensler

## Sustainable numbers and type of personnel

A team is needed to bring stability to a startup and lower the risk of failure. Some suggested rules of thumb used to define the type and make up of such a team are:

- ideally, a four to six person core team of a principal—or two, a project manager, an architect, and an administrative assistant. (The actual makeup of the core team will vary dependant on the type of work, the skill sets of the initial employees, and what type of support is provided from the home office. Some companies set guidelines for a minimum effective office size that must be maintained to allow their business model to work.)

- more than one “rainmaker” in place for business development efforts
- two or more principals to have a higher chance of success

**PULL QUOTE:** “... we started to realize the “rule of two” was important. It was difficult for one person to do the management, meet clients, and do design. We realized that two people working closely together and in tandem would represent the firm better.” – Arthur Gensler

## Local ownership presence

"Stake-in-the game"...Whoever is leading the office should have financial ties to the firm either through stockownership or an employment contract. This helps guard against a new operation, once up and profitable, flying away with the new leader and becoming its own entity. You would hate to subsidize the development of a new competitor.

## Alignment with the firm’s strategic business and practice plan

The firm’s strategic plan describes the long-term objectives that direct the company's efforts in the areas of operations and practice. The role and purpose of any new office should be evaluated in the context of the plan. This is not to suggest that opportunities that do not fit the plan perfectly should be ignored. Rather, the business plan should be used as a point of beginning to understand how the proposed office location will support the firm’s long-term objectives.

## Business plan for the new office

The new office should not only be in alignment with the firms’ overall plan; it should not be opened prior to the preparation of its own location specific business plan, which is reviewed and approved by the firm’s board of directors.

## Company internal cultural alignment

Successful firms have a strong cultural identity; a way of doing business and treating each other and their clients. These core values should be understood and shared by those forming a new office. Nonalignment often causes internal cultural wars and results in the failure of the new venture.

**PULL QUOTE:** “Most of our 46 offices were started by Gensler People and supported by local hires.” – Arthur Gensler

## Business market, political, and cultural assessment alignment

This is another element of a business plan. The firm should do research on the nuances of doing business in particular parts of the country to identify hidden cultural or political barriers to success. For example, some offices openings have been dampened by the realization of the degree of political schmoozing and contributions per se required to obtain public sector work. Other communities have a very strong bias

towards home-grown firms and will not give substantive work to newcomers or firms with a home office located out of town.

## A hot start

The most desirable scenario is one in which current work for an existing client can be used to establish a new office and “fund” the start-up. For large firms, a significant percentage of new offices are established in this manner. The preferred condition for a hot start includes a 12 to 18 month backlog for a core team staff of four to six people. Even in this scenario, the firm should make a strategic decision on whether this will be merely a “project office” or a new branch office.

**PULL QUOTE:** “The ideal situation is when your clients bring you with them into new marketplaces. Exploring new markets together occurs when trust has been built by your performance for them in other markets.” – Arthur Gensler

## Able to compete successfully for local work

All offices should be recognized in their local market as a superior choice for at least one of the firm’s target markets or services. The local office should not be dependent on the home office for sufficient work to survive. If an office has not achieved this within three years of establishment, the choice of location should be reevaluated.

## Advantageous geography and demographics

One goal should be to operate efficiently and effectively on a regional or national scale (across all offices). To the extent that the practice strategy identifies geographic diversity as a way to accomplish this goal, new offices should be considered in areas with the following characteristics:

- a population of at least X persons within a two-hour drive
- a rapidly growing population
- above average income levels
- excellent air access
- minimal established local presence of nationally scaled competitors

## Provides access to the best projects/fees

Consideration should be given to whether a proposed location will allow the firm to capitalize upon its demonstrated expertise and portfolio of previously completed work. Conditions should be evaluated to determine whether the firm’s cost and fee structure allow it to compete effectively for new work in the local/regional marketplace.

## Access to the best people

Evidence that a proposed office location will improve the firm's capability to recruit, hire and/or maintain a skilled workforce should be considered. In general, locations which meet one or more of the following criteria should be considered superior:

- Does the proposed office location offer something different from the firm's existing locations? That is, might it improve our ability to attract individuals with a preference for a lifestyle that current office locations do not provide?
- Is the proposed office located in a geographic area that is experiencing population growth as a result of in-migration from other parts of the country?
- Is the proposed office near an accredited university with programs that can provide a long-term source of high quality employees?
- Are there capable existing employees with an interest in relocating to and living in a new location?

## Creates diversity

Experience suggests that the financial performance of the firm is less volatile when its efforts are not concentrated in any single geography or target market. While a new office may be established to service an existing client, it may also be established with the primary goal of developing relationships with new clients and/or in new geographies.

## Operationally supportable

An assessment of whether the firm's existing business systems can be effectively applied to support a new location should be completed. If existing systems will not meet the anticipated needs, a specific plan should be developed to provide the new office with access to the resources required.

## Cost and payback period

The financial strategy for each new office should be developed on a case-by-case basis. At some point, every office must achieve the minimum financial performance required to establish and maintain profitability. The following is a preliminary set of criteria which can be used to evaluate the financial merits of the investment.

- Will the office generate adequate revenue and cash to be self-sufficient?
- Can the start-up effort be financed with cash reserves or ongoing profits from the company?
- If the office start-up will be financed with debt, will the office cover the cost of capital?
- Will the operation of the office provide a payback on the investment within a three-year time frame?

## Conclusion

With most things in life, how we start has a huge impact on the long term health and viability of the endeavor. Opening branch offices is no different, so timely and focused consideration of the most important criteria at the outset is critical to long term success.

## About the contributor

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This article corresponds to:

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Chapter 05 – Organizational Development  
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