

Recession proofing: When the boom busts, how will your firm fare?

Practice Matters

By Elizabeth Harrison Kubany

A sign recently spotted in a New York shop window reads, "Recession Special: For the one that was . . . and the one to come." After nine years of economic growth—the longest peacetime expansion in U.S. history—some Americans are beginning to wonder how much longer the economy can sustain the boom.

"Everyone I speak to is waiting for the shoe to drop," says Kermit Baker, chief economist for the AIA. "While there really aren't any signs that anything is wrong—billings are heavy, and inquiries for new work have continued to grow—below the surface, there is nagging concern." As Bob Hillier, FAIA, of the Princeton, N.J.-based Hillier Group says, "I can't see the end of the boom, but I know it is there."

"I've heard a number, which has never been refuted or substantiated, that 25 percent of all architecture firms went out of business during the last downturn," Baker continues. "I think firms today are well aware of the implications of an economic downturn and are looking over their shoulders for signs of weakness."

But there is no reason to sit around and wait for the worst. There are ways to minimize the impact of a downturn, whenever it might appear. We spoke to practitioners (many of whom have been through several economic cycles) to find out how they are preparing for a potential dip in the economy. Whether or not you are skeptical about the future of the economy, the following is sound advice that all firms should

follow, no matter how good or bad times are.

Diversify

There are two models of business diversity for architecture firms. First, those firms that do not consider themselves strictly design firms—those willing to try nontraditional business models—can expand the base of services they offer. According to Baker, "standard design services are as volatile as anything you can do," because they are tied to construction cycles. By adding services like facilities management, firms can take advantage of a building's whole life cycle and expand their fee base.

More design-oriented firms can achieve a different kind of diversity. Herb McLaughlin, AIA, of KMD in San Francisco says, "Our firm has always been very diverse in terms of both the building types we do and the geographical locations of those buildings. This approach has helped us maintain our size over the years. Besides being economically sound, this model of diversity is also an interesting way to practice."

Hire creatively

Sam Spata, AIA, chief administrative officer of HOK New York, has noticed a greater reliance on part-time and freelance staff since the last recession. Ten percent of his staff consists of temporary workers who may eventually become full-time team members. "When these people come and go, the morale of the rest of the staff is not impacted as it is when full-time

workers have to be let go," he says. As a general rule of thumb, HOK never allows labor costs to exceed 50 percent of fees.

Labor is every firm's single largest expense, so it is often where people make cuts first. For example, Timothy S. Reedy, Hardy Holzman Pfeiffer Associates' administrative director, says, "At this point, we are not replacing those people we lose because of attrition. The only way that we can really plan for the end of this boom is by keeping tight control on the number of employees we have, particularly those who contribute to overhead," such as marketing, public relations, administrative, and other employees with nonbillable hours.

Don't stop selling

As Kenneth Drucker, AIA, of HOK New York observes, "Even in this market—particularly in this market—firms can never stop marketing themselves." In these flush times, when architects are having to turn away work because they are too busy, it might be hard to understand the need to step up business-development activities. But laying the groundwork for new projects, particularly in those sectors that may not be indelibly affected by the economy, such as education or health care, can help sustain a firm through bad times.

Run a tight ship

Architecture is simply not a profession that allows for a lot of fat. Fee structures are far too tight, and technology, personnel, marketing,

and research costs are too high. No matter how flush the times, it always pays to run your business frugally. Since the last recession, Spata has noticed a trend toward fiscal conservatism. "I don't know of a firm that hasn't operated differently for the past 10 years. Overall, architects are much more cautious. If there is a slowdown, I don't think we will see as huge a correction as we saw eight years ago. People were traumatized by the early 1990s. In discussions with my peers, I have found that people are running a tighter ship—not allowing overhead to grow disproportionately in relation to fees—than they were in the late 1980s."

The good news

Despite some general wariness on the part of architects, Hillier thinks the profession might be in for a surprise. "This economy might have long legs because the largest sector of the population—the baby boomers—has more disposable income than ever before. They want to travel, be entertained, relax, learn. This leads to hotel, airport, golf-course, restaurant, casino, and theater construction."

He also notes that, even if there is a downturn, there will be at least one happy result: "The downside of this go-go economy is we have no time to ponder design problems. Everything is going so fast that sometimes we have to resort to a rote answer from the design standpoint. I don't feel we are advancing the art one iota. The best architecture is created during recessions." ■