What your mother never told you: Conventional wisdom strategies for greater profitability

Practice Matters

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Good economic times can lead to bad fiscal habits. When profits are high, it is easy to overlook a late payment from a client, or to spend lots of money pursuing projects the firm is unlikely to get. During the last recession, many architects tightened up their operating policies to maintain profits. Some have maintained these simple business strategies based on conventional wisdom because they improve the bottom line whether times are good or bad.

Grade your clients

With an average of eight percent of most firms' net billings going into marketing, chasing only the right projects can keep business development costs down. "We have a screening process that keeps us from going after jobs that we aren't likely to get," says Don Hackl, FAIA, of Loebl Schlossman & Hackl in Chicago. His firm's executive committee reviews clients on the basis of about a dozen criteria—whether it is a project type in which the firm has experience, what resources might be available to the client for funding the project, and whether the firm has done work for the client in the past. "The executive committee totals up the scorecard. If there are enough points, someone can go after the job. If not, we walk away," says Hackl.

What's it gonna cost me?

It is impossible to set a good fee without understanding what it will cost to produce the project. Robert Hillier, FAIA, president of the Hillier Group, headquartered in Princeton, N.J., takes this a step further. He suggests creating a business plan for every project, including estimates of how many man-hours will be required, and how much consulting and miscellaneous overhead will cost. These estimates can then be used to create realistic work schedules. Hillier began this formal planning because some clients were demanding that such schedules be available for review. He now does one for every project because "it is the most effective way to track costs from start to finish."

Scope creep

Knowing the scope of work is the key to understanding what your costs will be. William Harris, AIA, of Signer Harris Architects in Cambridge, Mass., says it is important that everyone in the office—from the project manager to the draftsperson—understands what the contract covers: "That way we don't spend time doing work that isn't covered by the contract." Architects often lament that clients ask them to expand the scope of work without expecting to pay for additional services. If the contract doesn't carefully detail the scope of work or if language in the contract is vague, the architect might be in a bind. To avoid such misunderstandings, the architect should spend time establishing the scope of work with the owner and itemizing it in the contract.

One architect admitted, "We used to lose about 15 percent on every job taking care of things that weren't under our scope of work. Finally we had our lawyer draw up several ready-to-fax contract amendments to the owner-architect agreements which we issue immediately when we receive a scope-of-work-change request." These state the architect's understanding of what additional work has been requested, give a price for executing the work, and explain whether this change to the contract will affect the liability of the architect in any way. The client must sign the form and return it to the architect before any change in the scope of work is executed.

Cut your losses

"I would say that every architectural firm has been guilty of not stopping the work when a client has failed to pay on time," says Don Hackl. Architects are often afraid to alienate their clients by being tough on late invoices; there are clients who are aware of this reluctance and are quite willing to take advantage of it. But late payments should be a red flag for architects: If a client is unwilling or unable to stay current with the architect's invoices, there may be problems with funding for the project. It may be best for the firm to get out before it takes a huge hit financially.

For international work, where it can be even harder to collect on a delinquent account, many firms require the client to pay a retainer. If payment is not received by the due date, Hackl faxes a notice that the work will be stopped in seven days, the project team will be broken up and reassigned, and the client will have to pay a fee to have the firm reassemble the team and commence work again. "It costs a lot of money to stop and restart a job; we should not have to eat this cost because the client hasn't paid on time," says Hackl.

Put it in the contract

Paying close attention to the contract, and making sure the client understands that contract, can help improve profitability. Harris says, "I always try to go through the salient items in the fee proposal face-to-face to identify and clarify all the potential issues. My profitability has increased because I do not have to walk through invoices with the client once they are sent." Harris also touts the B141 1997 because it "allows me to spell out the initial assumptions that will impact my costs." For instance, he might assume the project will be built by a general contractor with a licensed supervisor. If that changed—say the client decided his brother-in-law (who was just breaking into the construction industry) was going to build the project instead—the architect's scope would be affected.

Stanley Stark, AIA, a partner at HLW International in New York City, says his firm has determined that it costs more money to work with certain consultants. While HLW does not try to dictate whom the client contracts with, "We let them know during negotiations that we will have to charge more if they work with certain companies with which we have had bad past experiences." ■