

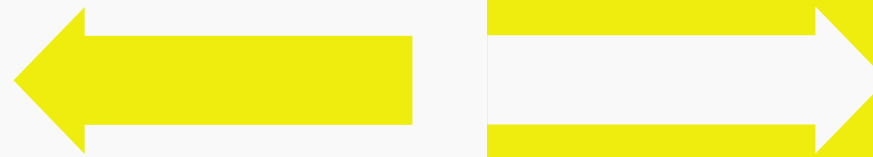
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National Webinar Series

Presentation will begin shortly

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2015 – no. 3

The Business of Architecture

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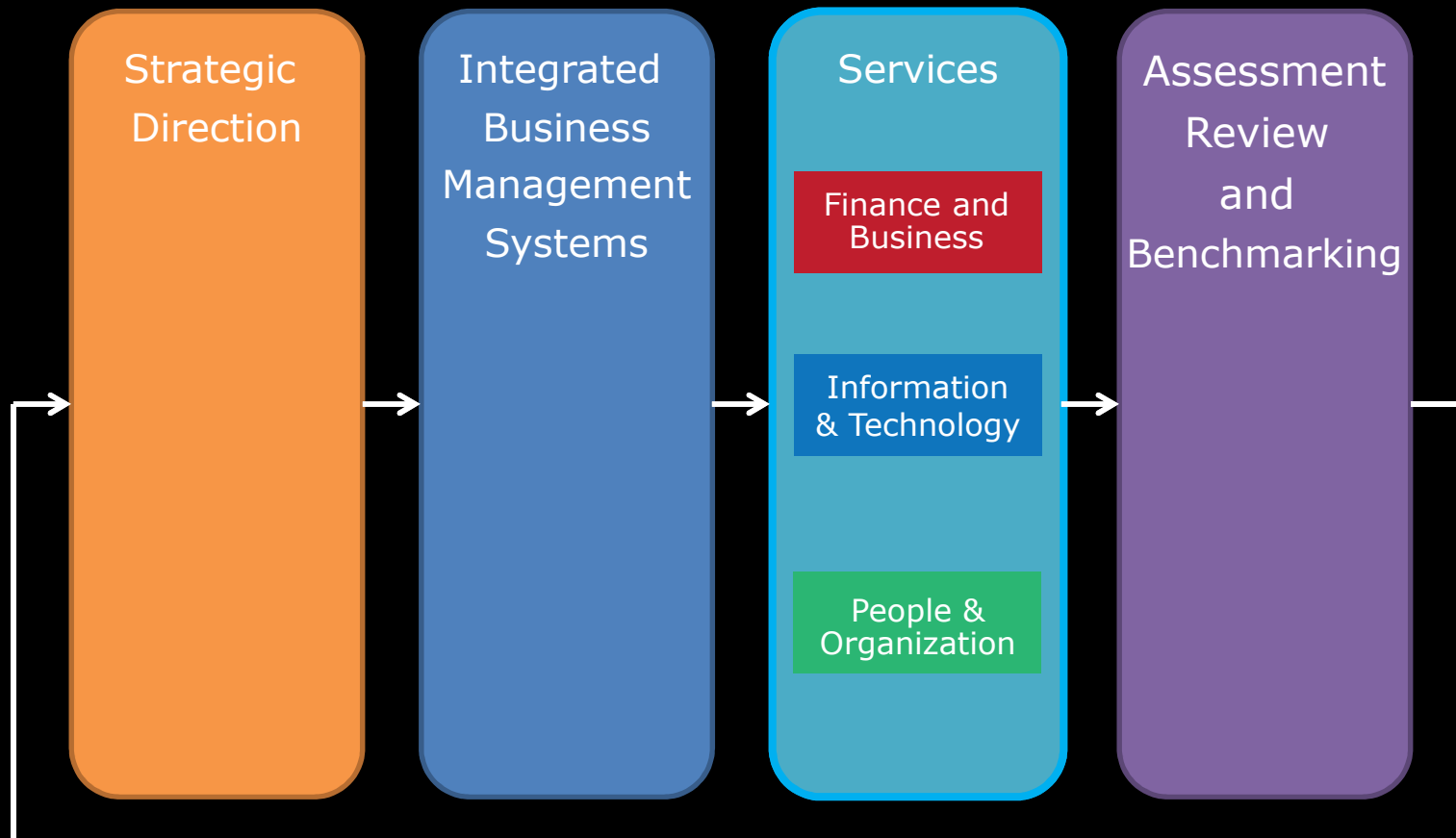
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Introduction

- Business of Architecture is about clients, leadership, vision, contracts, negotiation, profit and loss, systems, people, fees and proposals, invoices, budgets, communications and finance etc.
- Most architects set up their own practices with little or no experience in running or building a business
- Business of architecture is not innate — so how do you learn the right way?
Only a small fraction of what is required is part of our architectural education

Introduction

- Are you running a business or designing and delivering buildings?
- Successful businesses understand the value of their worth and how to deliver and charge for it effectively
- There are common themes throughout all successful practices and businesses. What's unique about architecture?

The 10 foundations on which to build a successful and sustainable architectural business are:

1. Purpose and Plan
2. Leadership
3. Systems
4. Financial Control and Profitability
5. Team
6. Management
7. Managing Risk
8. Marketing, Communications and Brand
9. Design and Delivery
10. Succession

3. Systems

- Your business is a set of inter-dependent systems — your systems are “how we manage around here”
 - How do we manage our time?
 - How do we ensure we deliver great design?
 - How do ensure we deliver our scope and make a profit?
 - How do we manage our projects?
 - How do we ensure we are developing our people?
 - How do we ensure we get paid on time?
 - How do we keep track of clients, prospects and contacts?
 - How do we ensure our people are fully utilised?
 - How do we ensure our people and suppliers are paid on time?
 - How do we manage our internal and external communications?
 - How do we manage our submissions and tenders?
 - How do we manage our financials?

3. Systems

- No matter the size of your business you will have processes for handling most of these operations.
- Need to make a decision on what type of business you want to build.
 - Are you building yourself a business or creating yourself a job?!
- Try to think of your business as the real product of your work! Design your business and deliver great business outcomes
- Work out ways to get things done effectively through systems. The more you grow, the more your business will rely on them (systems are a foundation)
- How well your practice works is directly proportional to the effectiveness of the systems you put in place

3. Systems

- What are the essential systems to control and build your business
 - Aligning your strategic objectives
 - Managing multiple marketing activities to generate work
 - Attracting and retaining great clients
 - Regular communications with clients
 - Dependable financial systems and monitoring performance
 - Manage projects and resources efficiently
 - Keeping track of clients, prospects and contacts
 - Managing your business operations that your people are committed to
 - Recruiting great people and ensuring they are in the right roles
 - Designing and delivering quality work
 - Managing the numbers with regular reporting
 - Developing (multiple) revenue streams

3. Systems

- This is where you can make it stand out from other architectural practices you see everywhere
- Prosperity, happiness, having a life outside your business depends on how well your practice functions
- Work out ways to get things done effectively through systems. The larger your business becomes the more your business will rely on them
- Principals need to set the example — can't delegate to an "office manager". There is an up-front time commitment

3. Systems

- Break your business into comprehensible parts, e.g. leadership, management, financials, business development, communications, design, delivery etc.
- Ask yourself how things should be done. What is our “way”? and develop the systems around this (the rules, the how to’s, the processes) .
- Involve the key people
- Don’t have to re-invent the wheel — number of systems that will handle project control, financial management, CRM, document control, resource management etc.

3. Systems

- Benefits that can be achieved
 - Work is more consistent
 - Less re-work
 - Less time/on time
 - Improved profitability with increased efficiency and scope control
 - Less frustration
 - Will attract and retain great people
 - More effectively manage and assess performance of projects and people
 - Systems create time for the leaders to be entrepreneurs
 - Allows others to take responsibility for different components of the business
 - Improved and consistent client management
- This is where you build the primary value in your business

4. Financial Control

- How well is your business managed? Profitability is a great indicator and 20% profit is the benchmark
- Strong financial management and performance gives the business the ability to say no, to attract the best people, the ability to invest in marketing, technology, growth, training etc.
- We are in an environment of reducing fees for service. Financial control and getting the scope right are becoming increasingly important.
- Basic principles are income statement, balance sheet and cash flow statement — need to review these regularly
- Business and Project Financial control are equally important — one leads to the other

4. Financial Control

- The ability to understand a company from financial statements is one of the primary differences between small and large businesses
- Where and how will you attain this capability?
- Need to review your financials on a monthly basis — get into a routine and make your director meetings non-negotiable
- We have worked with practices with sustained profit greater than 40%
- Minimum Performance Indicators include technical salaries to revenue, fees per hour, non-chargeability, revenue per person, work generated etc.
- Must have a project costing/accounting system — can be basic or sophisticated — need to know fees, costs and profit by project and monitor this regularly

4. Financial Control

- Monitor your business and project performance against budget and forecasted income and expenses — % of expenses on marketing, IT, salaries etc.
- 4 main reasons why projects aren't profitable — over servicing, inaccurate scope/managing variations, rework and project management capability
- Project Architects want to take responsibility for the financial performance of their projects — fees and resources — “if they are trained”
- If you want focus — then measure it
- Winning work with low fees places significant pressure on profitability, quality and cash flows and ultimately on the “brand”.
- Work generated and “opportunity pipeline” are great indicators of future workload

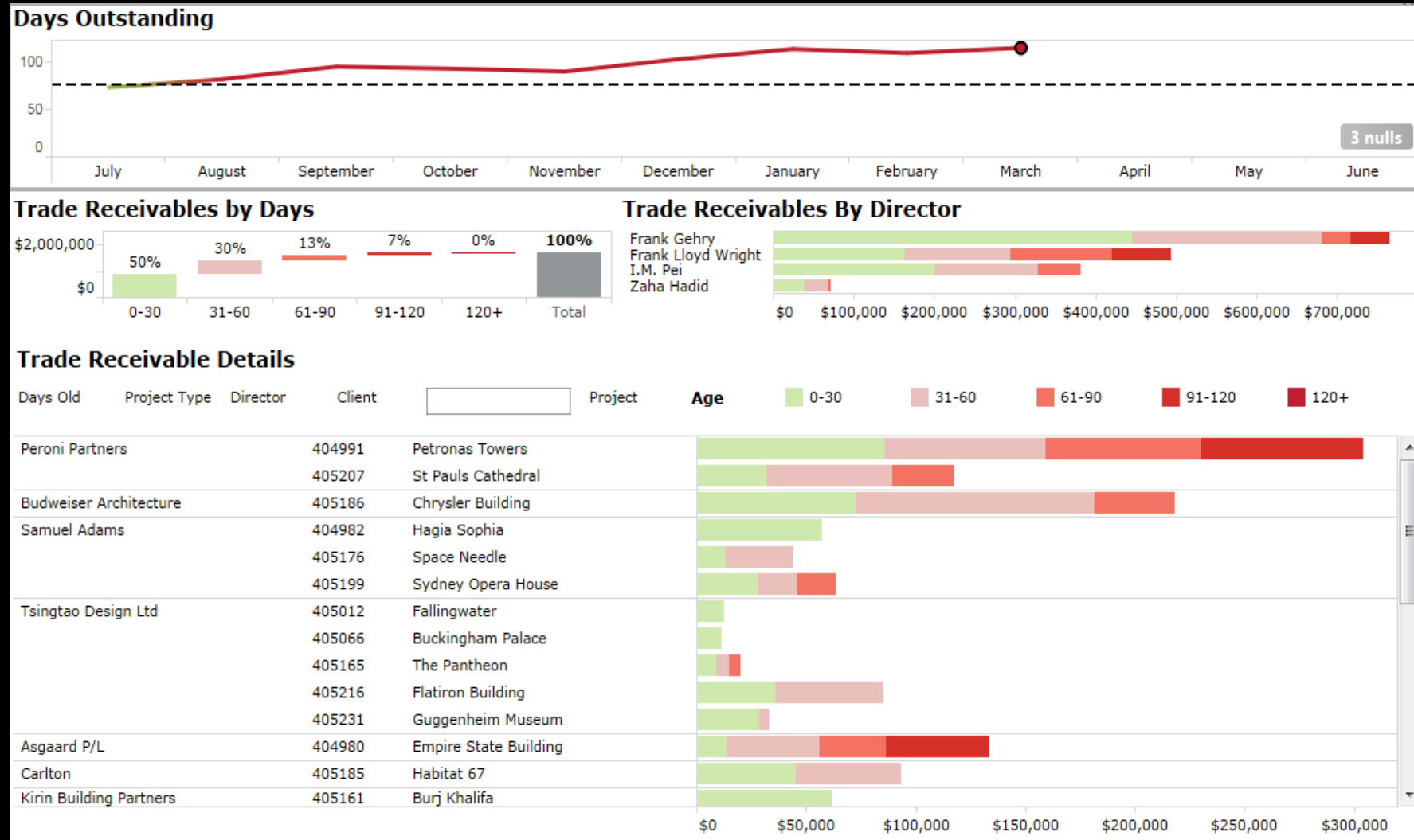
4. Financial Control

- Sample KPIs we track
 - % Profit
 - Expenses/revenue as a proportion of revenue, e.g. technical salaries, IT, marketing, plant and equipment
 - Cash at Bank/Safety Bank Balance
 - Debtor Days
 - Staff Utilisation
 - Fees/Chargeable Hour
 - Direct Labour Multiplier
 - Revenue Growth
 - Revenue per technical person
 - Work Generated
 - % time on Submissions
 - Backlog (Work in Hand)

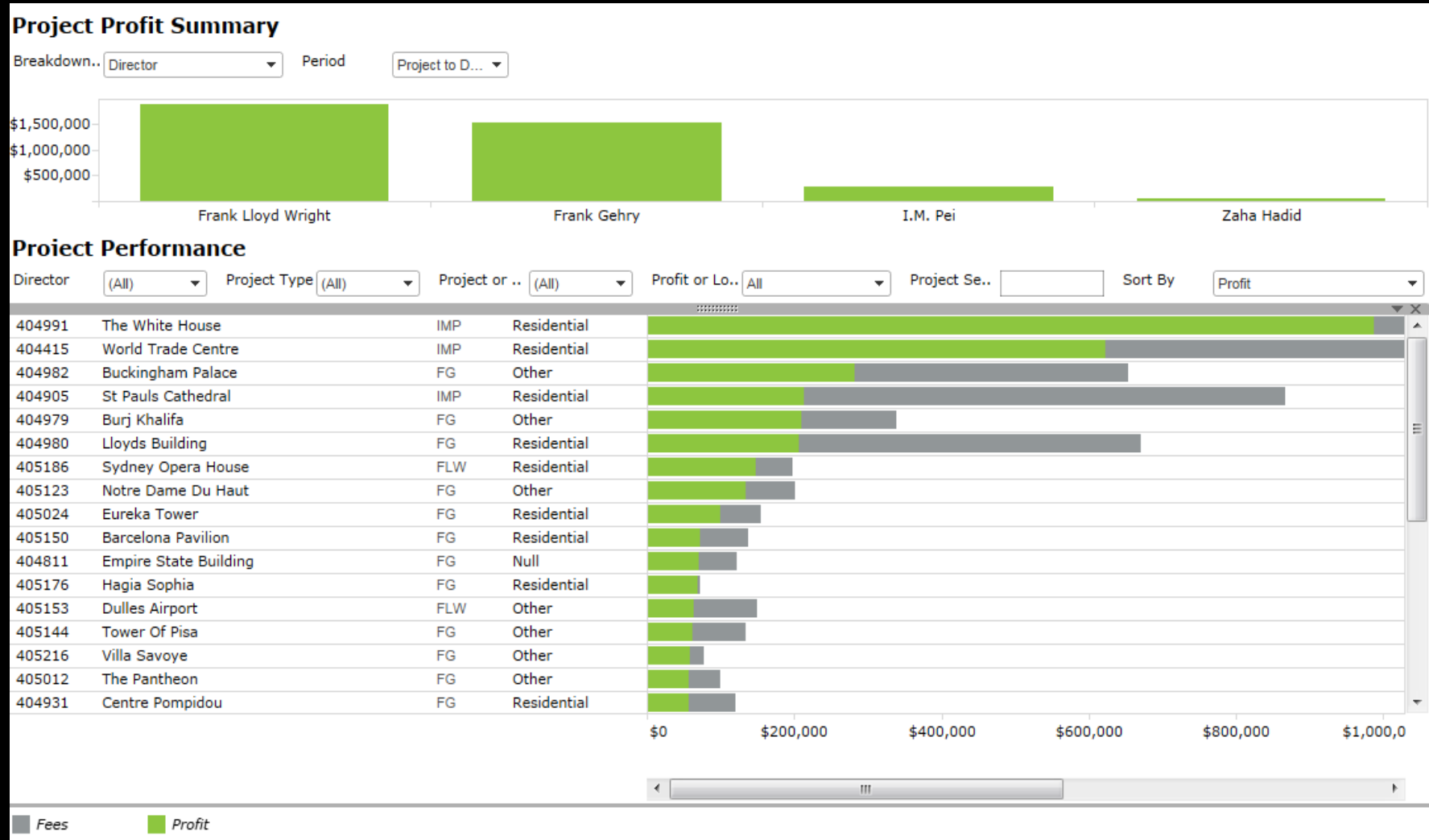
4. Financial Control Income



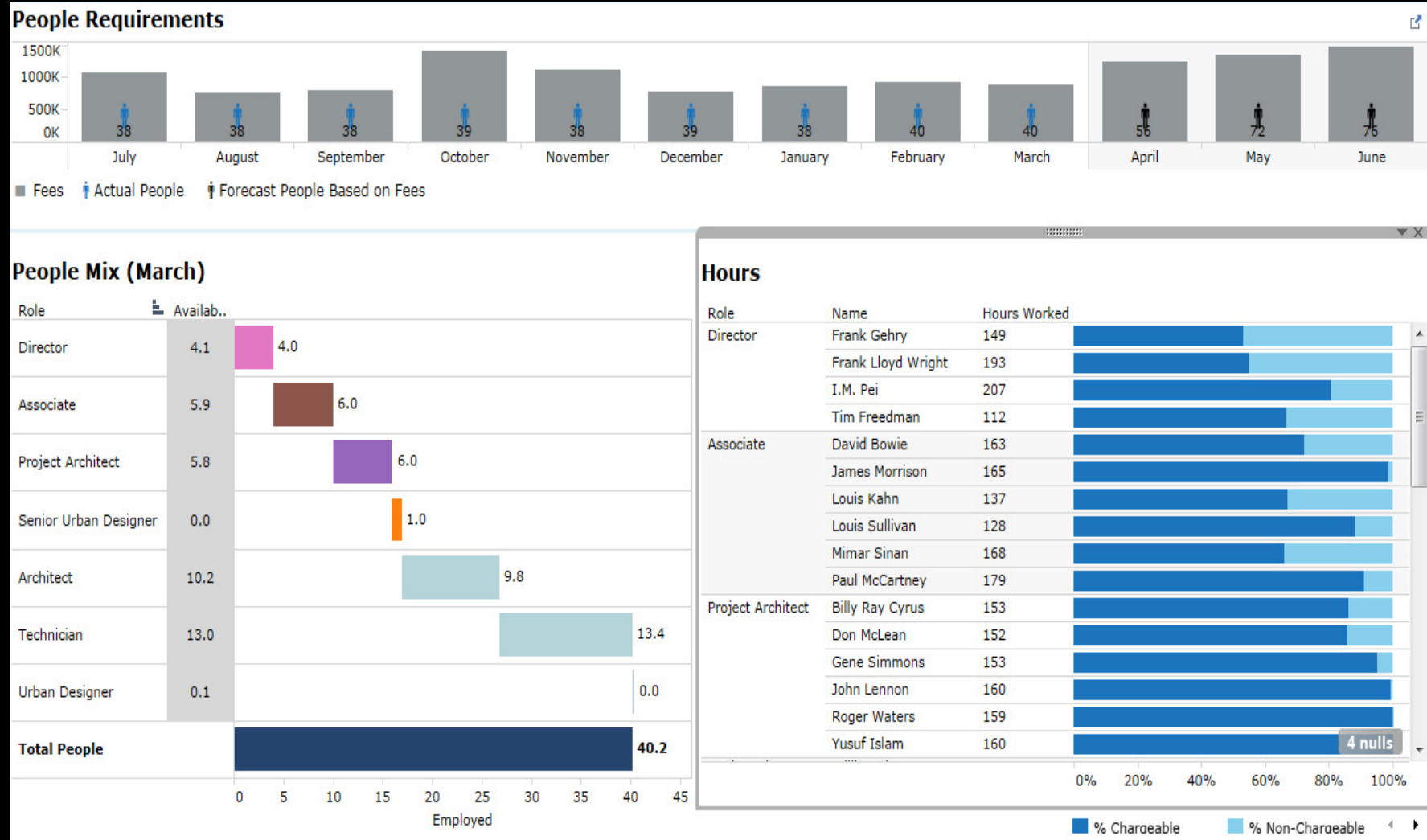
4. Financial Control Trade Receivables



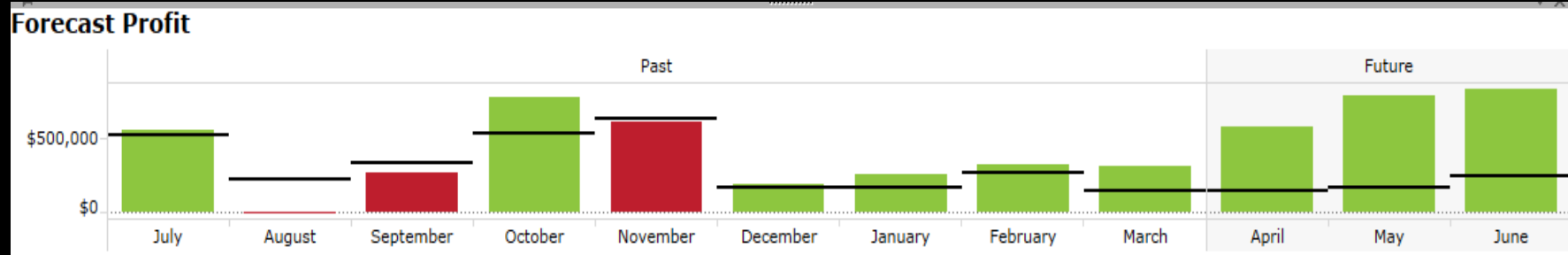
4. Financial Control Project Performance



4. Financial Control Resource Requirements



4. Financial Control Forecast Income and Expenses



Profit / Loss

Forecast

March

		Actual	Budget/Foreca..	Variance
Income	Income	\$845,675	\$676,809	\$168,866
	Miscellaneous	\$42,081	\$0	\$42,081
	Total	\$887,755	\$676,809	\$210,946
Less Expenses	Administration	\$19,004	\$27,427	-\$8,423
	Finance & Legal	\$29,243	\$29,680	-\$437
	Human Resources	\$6,480	\$41,250	-\$34,770
	Information Systems	\$31,712	\$37,342	-\$5,630
	Marketing / Communications	\$13,853	\$24,874	-\$11,021
	Plant & Equipment	\$36,243	\$32,966	\$3,277
	Professional Services	\$52,251	\$24,429	\$27,822
	Technical Salaries and On-costs	\$337,961	\$337,680	\$281
	Miscellaneous	\$46,272	\$6,957	\$39,315
	Other Income	-\$608	-\$1,000	\$392
	Total	\$572,411	\$561,605	\$10,806

Annual Forecast

		Actual/Forecast	Budget	Variance
Income	Income	\$12,490,139	\$10,699,670	1,790,469
	Miscellaneous	\$171,427	\$0	171,427
	Total	\$12,661,566	\$10,699,670	1,961,896
Less Expenses	Administration	\$292,003	\$311,288	19,285
	Finance & Legal	\$453,979	\$455,336	1,357
	Human Resources	\$115,995	\$217,492	101,497
	Information Systems	\$414,973	\$446,652	31,679
	Marketing / Communications	\$372,844	\$352,004	-20,840
	Plant & Equipment	\$388,524	\$383,676	-4,848
	Professional Services	\$445,561	\$299,375	-146,186
	Technical Salaries and On-costs	\$4,373,870	\$4,607,055	233,185
	Miscellaneous	\$286,181	\$83,484	-202,697
	Other Income	-\$18,251	-\$12,000	6,251
	Total	\$7,125,681	\$7,144,362	18,681

5. Team

- Architecture is not about buildings, it's about people — the people who use your buildings, the public that experience your buildings, the clients that commission you, the consultants, the builders
- The people you employ are only a small part of the picture. Your team is made up of owners, advisors, specialists and employees
- The main difference between a business and being self-employed is the team you surround yourself with
- Surround yourself with experts, mentors and advisors. Work out who you need around you — financial, tax, legal, risk, strategy — you learn from the experts around you and you will get the return on your investment! Its imperative.

5. Team

- Without people you don't own a practice — you own a job
- You need to put your energies and focus towards the quality of people you hire — hire for cultural fit first and skills second. Foster a culture of accountability
- Recruit people who bring a talent you don't have and surround yourself with people trying to build a career rather than having a job
- Quite often the mistake is not who you hire — but who you put in charge of hiring and the people you fail to let go — trust your judgement!
- Your team needs to have experience, passion and commitment — A, B , Cs

5. Team

- Develop clear performance criteria (expectations) and a comprehensive review process (with clearly defined objectives) and reward/recognise accordingly
- Build relationships by being a good listener. If you know how to listen — you know how to problem solve
- Need to spend time with your people on Business Management — those that “get it”. As leaders you need to mentor and educate — no-one else will!
- Need systems in place to be able to delegate responsibility and for your people to confidently take control

5. Team Key people contribution criteria

- Work Generated — existing
- Business representation
- Strength of Client Relationships
- Extra Curricular activity
- Design Initiation
- Design Delivery
- Fees Written
- Project Profit
- Client Satisfaction
- Quality of Outcomes
- Delivery of Scope
- Leadership
- Personal Organisation
- Professional Development
- Mentoring

CPD

Next Session

- Management
- Managing Risk
- Marketing, Communications and Brand

November 2015?

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Refer to www.M4D.com.au for sample case studies

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Thank you for attending

Participation in this webinar

- corresponds to 1 formal CPD point
- please keep your receipt and completed questions as evidence of your participation