



CHANGES IN THE MARKETPLACE

By Peter Piven

Published in *DesignIntelligence*, February 15, 1999

We were recently asked to talk to architecture students in the Graduate School of Fine Arts at the University of Pennsylvania about "Maintaining the need for flexibility in a changing marketplace." Since the marketplace is always in a state of change, it became clear that this request was based on the specific assumption that something special or unusual had occurred that was likely to affect students who were preparing to enter the marketplace as fledgling professionals. Rather than present information based solely on our own observations, we conducted a study to prepare for the assignment. We surveyed practicing professionals about their specific experiences, asking two simple questions:

- What changes in the marketplace have affected your practice in the last three years?
- What has your firm done to respond to those changes?

The Change: Increase in the volume of available projects. With a few individual and regional exceptions, the participants confirmed what (most) everyone has experienced recently: more work has been available. The actions that were cited to respond to that unusual and seemingly delightful condition, however, were quite varied.

Make hay while the sun shines, but understand that the tide that has risen will recede. "Live within your means; maintain an affordable growth rate" was a related response. Mixed metaphors notwithstanding, these responses reflect the view of those who have experienced the cyclical nature of the economy, the construction industry, and construction-related professional services. Even if they do not believe that the past predicts the future in any specific way, they believe that what has happened before is likely to happen again and that, in Santayana's words, "those who cannot remember the past are condemned to repeat it." No one wants to re-learn the harsh lessons learned in the last recession.

Be more selective in pursuing new work with respect to client profile, project size and type, fees and risk; focus on core expertise. This response suggests that the professional can take advantage of increased volume by concentrating on opportunities that have a higher probability of success in both securing and executing the work, enhancing the firm's reputation, and building an even stronger client base. With more work available, there is increased opportunity to narrow one's sights, screening out projects that are viewed as marginal in any respect.

Maintain practice diversity to reduce risk of reduction in particular market sectors. This response is 180 degrees opposed to the prior one. Whereas that one

commended focus, this commends diversity, albeit with a different objective. Before, the object was narrow focus to increase the likelihood of success. Here, the object is to reduce or spread the risk of the collapse of any individual market, either within the generally healthy economy or as the economy itself wanes.

Postpone or extend schedules to increase future backlog. This response recognizes not only the crunch on available capacity that is created by the need or desire to respond positively to the opportunity to do more work, but also the expectation that the situation may reverse and what is now feast may soon become famine. Either condition suggests the benefits to the firm of stretching, rather than compressing, project schedules, both to ease schedule compression and the frequent damaging effect on staff and quality. From the other perspective, the opportunity to push current schedules into the future adds to backlog at a time when market forces may have changed and the backlog created by winning new projects may be harder to obtain and maintain. A risk in this approach is that competing firms may win clients by offering more timely delivery.

Develop new services related to core expertise. For growth-minded professionals, the opportunities afforded by a strong economy and marketplace provide a means of growing beyond current capabilities. They permit developing new capabilities and services that are related to, and can be built upon, the firm's core expertise, staff, geography and client base. Beyond selling current capabilities in current markets, the next most efficient expansion is to sell new services to current clients.

The Change: Clients movement in opposite directions regarding project delivery - internalizing vs. outsourcing - with both types demanding single-point responsibility and accountability. The marketplace is viewed as being more diverse than ever with respect to clients' attitudes about how best to obtain the professional services that they require to deliver building projects. Clients have become more familiar with the variety of delivery options available to them. Many are doing more for themselves, increasing their own capabilities, while others seek to minimize the need for internal staff by seeking outside professionals.

Organize in practice-area studios. This response reflects the need to respond appropriately to different needs. Clients in the marketplace demand particularized responses. Since it is extremely difficult to be all things to all people, it becomes necessary to organize in a way that allows the development of specialized knowledge and delivery of specialized services that respond to the particular needs of different marketplace sectors.

Seek new employees with specialized capabilities and experience. This response follows immediately on the heels of the last one. Success in organizing to respond to different client needs is enhanced by developing staff with the

specialized capabilities and experience demanded by clients in that sector of the market. In fact, it is highly likely that client-focused or practice-area studios will be successful only if those with leadership roles do have or can quickly develop such specialized capability and experience. It becomes necessary to know the clients' language and business.

Expand control of the entire building delivery process; establish market-specific design/build entities; develop a wholly-owned construction management (CM) company; assume the prime position in design/build projects. These are specific responses to increasing demand in the marketplace for single-source responsibility for project delivery. All meet the need by involvement, in some way, in design/build. None of the responses indicate mere involvement in design/build; that appears to be a foregone conclusion. These responses go further down the design/build road to address specific kinds of involvement, namely establishing design/build entities able to respond to different market needs, developing a CM (construction management) company as the vehicle to provide design/build services, and assuming the prime role in design/build projects which, for reasons of risk management, is ordinarily achieved by establishing a separate construction or construction management company.

Develop more permanent alliances with other disciplines and non-design consultants. This response reflects the desire of those who respect new directions and trends in the marketplace and choose to maintain a narrow but strong set of capabilities internally and develop breadth and response capability via relationships with others.

The Change: Commoditization of professional services, causing increased competitiveness and fee compression. These changes in the marketplace would seem to be at odds with generally increased volume; in fact, they are not. Although the total volume may have increased, not all sectors recovered from the recession of the early '90s at the same rate; some have only just begun to rebound. Overbuilding in the commercial sector, for example, caused a precipitous decline in office building construction. Professionals who had been serving those clients began directing their energies to pursuing institutional clients, increasing competition in that sector. Professionals experiencing such changes responded in many ways.

Be more selective about work we pursue; focus on core expertise; establish market-specific design/build entities. These responses, some of which also related to other perceived changes in the marketplace, address the need to respond to particular markets/clients, and not to the market, in general. They reflect the implicit understanding that since commoditization occurs when clients cannot distinguish among service providers, differentiation is essential and is achievable through focus and selectivity.

Increase productivity via business-like operations, automation and overhead control; develop a consistent, improved process for producing responses/proposals. The first set of responses addressed the change in the marketplace from a marketing and sales perspective, asking the question "How can we get work where we will not be viewed as a commodity?" These responses address the project delivery and overhead side of the ledger, asking the question, "How can we streamline our organization and processes so that we will remain competitive in a demanding market?"

Stay current technologically; invest in automation and other tools to enhance productivity; use technology to maintain uniform standards, enhance quality and personalize responses; emphasize training to take advantage of the investment in hardware and software. These responses deal specifically with technology, especially computerization. They acknowledge the importance of technology in controlling project design and documentation costs, enhancing and controlling quality, and improving response time.

Keep overhead in control. This response reflects the broadly understood need to stay financially competitive by monitoring and controlling the indirect expenses necessary to operate the firm, in addition to improving project productivity.

The Change: Client demand for speed; perception that CADD makes projects more complete and easier to deliver faster, with resulting project compression and increased internal stress.

Invest heavily in technology: email and LAN files; T-1 line for voice, data and video; Microstation Triforma; CADD upgrades; manage information via website technology and extranet file-sharing. These technological responses reflect the need to respond to the specific market condition, i.e., to continue to find ways to expeditiously deliver professional services and the work output of those services.

Increase internal education and training. Although this response generally refers to technical and technological (read "computer") education and training, in many firms education and training goes well beyond the technical and technological to include training in marketing and sales; project, client and firm management; and leadership.

Change the work environment to reduce stress: shift control to individuals; provide flexible hours; recognize individual contributions and accomplishments. This is an unusual but perceptive set of responses that recognizes that people remain the firm's single most important asset. It is not coincidental that the largest expense category in the firm is salaries. There is little question that management must meet the basic economic needs of staff. However, once those needs are met, it is the totality of other factors and conditions that make for contented, dedicated, loyal, and productive employees. Most particularly, these include the quality of

the working environment and the work, appropriate responsibility and commensurate authority, growth opportunity, and recognition for one's efforts, contributions, and achievements.

The Change: Increased complexity in the process of planning, programming, designing and construction, eg., public funding, owner representatives, inter-government regulations, overlapping domains; client demand for expertise; client demand for market-responsive design.

Recruit, train and retain more experienced staff, in general, and specialists, in particular; hire designers and other professionals who understand the firm's and its clients' business realities. These responses reflect again the strong tendency to focus the firm's efforts on particular segments of the marketplace. Contrary responses, i.e., generalization and flexibility rather than specialization and focus, came primarily from smaller firms whose clients have come from the community in which they practiced and who feel the need to maintain the flexibility necessary to take advantage of the variety of opportunities that might present themselves.

Understand the decision framework that produces design excellence; define design in the broadest terms to include comprehensive design of architectural and engineered systems and assemblies; look to the design team to provide leadership to our clients; formalize a collaborative design process. These design-related responses reflect the continued importance of design, in general, but go further to define design in terms of its broader context, particularly the client's needs and decision structure. The response to "formalize a collaborative design process," arose out of the firm's recognition that its strength in the marketplace was its reputation for creative and inventive solutions, regardless of market segment.

The Change: Globalization of the economy; consolidation of businesses via merger and acquisition.

Maintain a generalist practice (with multiple foci) to enable responses to perceived new directions in the marketplace. Associate with others internationally. Invest in technology. Although there are daily reports of the general effect of the global economy in which we exist, it is easy to think of the results as only macro-economic, with little effect on design practice. Heretofore only the largest firms were able to avail themselves of opportunities beyond their borders. This has changed. More firms are finding ways to develop alliances and to apply technologies that allow them to compete favorably for foreign projects. And, firms with only modest technological sophistication send verbal messages and graphic information around the world, not only to clients, consultants and contractors, but also to other firms that prepare project documentation packages on a contract basis.

The Change: Increased difficulty in finding and retaining qualified staff.

Clearly a result of the increase in the volume of available projects, this syndrome represents a special kind of change because it is so unusual and comes on the heels of a general surplus. Professional practice has become consequentially different from that with which we were familiar with and accustomed. Labor was always the most significant variable expense. Much as they might dislike doing so, firms could hire and fire as necessary. Now, the buyer's market has become the seller's and the ability to produce has become dependent on the ability to attract, recruit, train, and retain competent staff. Following are the wide variety of attitudinal, strategic, and tactical responses to this change in the marketplace.

Maintain and reinforce the firm's reputation in the marketplace to help attract good people and maintain salary levels. Maintain volume to reduce the need for staff fluctuation. Network and advertise to identify candidates; participate in local surveys to keep current on salaries and benefits. Reward current staff who bring others. Provide increased salaries and bonuses for of current staff. Offer signing bonuses and moving expenses to new staff. Provide training and continuing education opportunities to staff. Respond to expressed employee preferences, including workplace flexibility. Bring more people into ownership to better ensure core staff stability. Use contract staff, if available.