



# POSITIONING FOR THE TURNAROUND: A REPORT ON THE EFFECT OF THE CURRENT ECONOMY AND WHAT TO DO ABOUT IT

By Peter Piven

Published in *The WF Report*, June 2009

It has become quite clear that we are in the midst of a worldwide economic downturn that has dramatically affected almost every design firm and every market sector. The latest reports about the building industry indicate that the economy continues to slide, with billings down and unemployment up. Although the stimulus package has been announced, its effects are yet to be felt. The markets are tenuous; clients are wary of proceeding. Financing is harder to get and will likely continue to be a challenge, affecting both clients' ability to move forward and design professionals trying to sustain their practices or find employment.

There is good news. There are and will continue to be opportunities, and there will be more as time goes by, not only in the few markets that appear to be recession-proof, but elsewhere also, even among developers. The stimulus package will have a huge impact on capital development, particularly related to infrastructure, transportation and energy efficiency. Certain market sectors, most notably those related to the infrastructure, are likely to rebound first and then have a trickle-down effect on other sectors. Perhaps most important, there are things firms can do to get through the downturn and be ready for the future when the market changes, as it surely will.

Our recent research indicated that about five percent of the firms were in trouble, barely hanging on or, in a few cases, not surviving. Another five percent were doing fine; they were stable and expected to continue that way through 2009. The great majority have taken steps to address the decline in revenues and profits that they anticipate this year. Those steps cut across all aspects of practice, involving operations, project delivery, marketing, management, operations, human resources, and strategic planning.

## Operations

For those who haven't yet addressed it, the first priority is stopping the financial hemorrhaging. It is important to assess current and projected revenue and expenses, identifying the expenses that are necessary and those that are less important. Analyze cash flow by looking at projected revenue and expense streams, equity, and funding sources. Because staff salaries constitute the biggest and most variable expense in virtually all architecture and engineering firms, calculate any variances between currently available

and future affordable Direct Salary Expense (the portion of salaries applied to projects), and take appropriate action. Assess talent and make changes where warranted. Consider reduced work schedules, furloughs and, if necessary lay-offs.

Restructure and refine operations to become more efficient and more proficient. Use the down-market period to increase technical and technological proficiency of all kinds, in all areas - in systems, procedures, automation and in the individual capabilities of the firm's personnel. Examine the structure, procedures and practices that are currently in place to deliver projects to clients, especially including decision-making, and make revisions in ways that will improve effectiveness and efficiency.

Introduce, or move more strongly into, building information modeling (BIM). Still in its infancy, those firms that have employed BIM have found that they have learned a new way to think about project development, making important design and technical decisions earlier in the delivery process, that helps produce a better coordinated project.

Accelerate efforts toward LEED accreditation, not only because it is important in itself, but also because not having it will be a negative differentiator in the future.

Add new disciplines to improve competitiveness in the marketplace, and invest in research, particularly where basic research provides an opportunity for a competitive edge. And, strengthen expertise, either in-house or through selective affiliations.

### Marketing

Don't cut back marketing, increase it. Since generating more revenue is substantially more effective than cutting expenses to maintain solvency and liquidity, marketing is more essential than ever. However, this is a particularly good time to remember that no firm has infinite resources. Be selective. Avoid the temptation to go after anything and everything that moves. Focus is especially important in these times when conservation and effective application of resources is vital.

Bringing in work quickly is likely to be a high priority. Follow market trends closely to anticipate what will be happening in your firm's target market sectors, and make the necessary moves to change position early. Find ways to encourage clients to move forward on projects that they may have relegated to the back burner. For some, opportunities for feasibility studies, planning, programming and other front-end services will be stronger than opportunities for more conventional, start-to-finish assignments. They are

less costly and likely to be more valuable to those clients who are looking ahead.

Consider expanding geographic market reach by opening a satellite office - physical or virtual. Develop strategic alliances and relationships to extend your expertise to new geographies and new sectors. Partnering with other firms allows you to stay lean while pursuing work for which it would otherwise be difficult to be considered.

Create a stricter "go-no go" routine for considering new opportunities so that you will focus your marketing efforts on the right things. Abandon pursuit of markets and projects for which you have little expertise, because it is likely that others who have more than you will be more competitive. Placing second isn't worthwhile or satisfying.

In the indirect marketing arena, use down time to improve collateral materials, including websites, to stay in touch with past, present and future clients ... and others who can influence them. Seek opportunities to publish and speak, which are important ways to become recognized as expert. If necessary, restructure and or redirect your marketing organization so that it is as efficient and effective as possible.

Lastly, remember that sustainability is a high priority. Once a positive differentiator for those who had capability and accreditation, it will soon be a negative differentiator for those who don't.

### Clients

The easiest source of work is clients with whom the firm has already worked. Sustain relationships with your clients: past, present and prospective. Stay connected at multiple levels; talk not only to the top guns, but also the managers and others who work with them. Remember to keep client service high on your priority list; new clients are harder and more expensive to get than those you already have.

Help clients understand how the things that differentiate your firm benefit them. Be sure that they understand the benefits to them of such things as, for example, building information modeling, design/build, comprehensive services and integrated project delivery.

Offer to do work in small increments. Help them get ready to move to next steps when financing and other considerations warrant. Encourage them to capitalize on current construction cost reductions, and offer incentives to get things moving, but not to the extent of devaluing your work.

Last, consider becoming your own client by becoming a developer. But, if you do, remember that developing projects requires financial understanding, funding sources, knowledge of the market and risk, and could take much more of your time than you may want to spend.

#### Overall firm strategy

Act now to position the firm for where you want it to be in three years and beyond. Even in these troubled times, when the focus is on keeping body and soul together, it is important to keep an eye on the future. Develop a strategic plan - a coherent vision for the future, and an action plan to implement it. Not only will it help you identify a clear path to follow, it will be a strong motivator internally.

Consider affiliation strategies as ways to expand your expertise, power and influence - from individual, project-based strategies, to broader strategic alliances, to mergers and acquisitions. Alliances can broaden geographic coverage, strengthen service offerings, and lead to the development of new expertise.

Understand the financial underpinnings of both market sectors and specific clients, and use that understanding to help clients develop strategies related to their own needs. Speak their language.

Get wide - in understanding client' worlds and needs and in expertise to meet those needs. Get deep - in knowledge and skills. And stay connected - with clients and networks at multiple levels.