

## In preparing for an economic downturn, shift your gaze

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**E**VEN THE SUPREME OPTIMISTS AMONG US notice such things as problems in the mortgage industry, projects that seemed to be well underway a few months ago losing traction, the weakening dollar relative to other currencies and volatility in the stock markets. And a presidential election is little more than a year away, and the results of that circus are anyone's guess. What, if anything, do such things tell architects? And if the architects do hear what it tells them, what should they be doing?

Our crystal balls aren't particularly clear. If they were, we wouldn't *speculate* on the future; we know exactly what will happen. But there are still a few faulty chips in the time machine, so speculation it will have to be.

Some relatively young practitioners have never experienced an economic downturn. Even the depth of the post-9/11 economy pales for many the farther it recedes in memory. (And for those who may not be aware, the 2001 downturn began months before 9/11; 9/11 just added significantly to what was already happening.) The protracted recessions of the past may not repeat – or they may, who knows? – but being in the midst of even a short-lived one can be devastating, emotionally if not financially.

Let's get the obvious tips out of the way:

1. Use some of the current profitability that many firms are enjoying to create a fund in the event that with an economic slowdown comes a cash crunch. Keeping money in the firm is OK; taking it out with commitment among owners to put it back if necessary (as paid-in capital or as loans) might be better, to minimize exposure in the event of litigation.

Tax considerations also play a role in the decision. Owners of S corporations and of entities taxed as proprietorships and partnerships will pay tax on the profit irrespective of whether it remains in the firm or goes into their pockets. C corporations will pay tax at the corporate level for money they leave in the firm. Advice from a qualified tax adviser is the best bet on this matter.

2. Solidify relationships with current and recent clients. Behave with the mindset that every client is the most important one. Address points of dissatisfaction. Engage in dialogue about where the client will be going during the next few years. Let it show that you *care* about your clients. Let it show that you are working to stay abreast of your clients' worlds.
3. Get friendly with your bank. Make sure you're connected with someone there who will care about you, much in the same way that you care about your clients. Pay down debt and avoid getting over-extended. Banks are likely to be least inclined to lend when you need it most.
4. Square away difficult project financial situations, particularly those in which clients are behind in their payments to the firm. Stop work if necessary, if friendly persuasion and cajoling don't get results. Remember the late '80s (or find someone who can tell you stories), a period when the confidence that many architects had in their clients, most notably developers – evidenced by architects front-ending work to help developers get funding for their projects, with the expectation that the architect would be paid when the funding was in place – was rewarded with no payments at all, and some firms disappeared from the landscape as a result.
5. Be judicious in staffing and compensation. The surge in salaries appears to be leveling off, which is good, since being locked into excessive salaries – salaries that when applied to a multiplier result in fees that are unrealistic to expect clients to pay – is rarely a good idea, particularly when a market shifts from a seller's to a buyer's (in other words, when demand slackens).

6. Encourage clients to think about the *value of the result* rather than the *cost of the effort*.

7. Be sure the right people are in the right places, starting with the decision regarding who belongs in the firm. Avoid over-accommodation (retaining people who perform marginally), because in doing so, others in the firm have to cover for them. The right setting is out there someplace for everyone. Avoid feeling guilty if you conclude that your firm isn't the right setting for everyone. Play hardball.

Now let's go to the less obvious aspects of thinking about an economic/market leveling. As pilots are taught, *shift your gaze*. That is, pay attention to the immediate future, but not to the detriment of keeping an eye on where you want the firm to go in the mid- and longer term; in other words, be thinking about a possible downturn *and the rebound years that will follow*. In activities like skiing and motorcycling, looking where you want to go is good advice. The same is true for your practice. Take care of business at hand – the near term – but also focus on where you want to go and what the firm needs to do to get there. Marketing and professional development are things that will let the firm prosper in the upswing (when some shorter sighted firms might still be floundering in the downturn, lengthening the period of their struggles).

Encourage your clients and prospective clients to engage in similar dual time frame thinking. Get close to them. Help them envision where they want to be in three or four or five years. Explore and understand their issues – their funding, the factors and trends that impact them today and tomorrow, the players in their arenas, the opportunities that creative thinking might surface – and become more than just another competent architect. Become positioned as a partner or resource in the client's thinking.

Encourage those in the firm, including those who might seem too young and inexperienced, with marketing interest and potential to develop/expand their visibility in the community and market sector networks. Take the risk that some might leave and capitalize on the marketing investment that the firm has made in them. The positive view is they might stay.

Be smart and realistic. Don't let concerns about the economy become a self-fulfilling prophecy. Develop and exude a confidence that the firm (and you) will weather the storm. Let *that* be the self-fulfilling prophecy. ■

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