

Price services based on value provided

Adjusting, reinvesting in your firm today can pay dividends tomorrow

By Hugh Hochberg, The Cox Group



Hugh Hochberg

IT MAKES SENSE TO BE UNEASY ABOUT WHAT'S COMING AROUND THE BEND, despite the current robust marketplace, evidenced by many firms having more work than they say they can handle—yet taking on additional projects anyway. Further evidence is the extreme difficulties some firms are encountering in their efforts to find and recruit talent, compounded by competitors' efforts to recruit away people already in place.

Some of the uneasiness can be based on unknowns about the economy, although it's reasonable to conclude a decline at some time in the next three years. Some of the uneasiness can be based on continually increasing intrusions into the marketplace by non-traditional providers of design services. Some of the uneasiness can be attributed to concerns about evolving technologies and delivery methodologies. Some of the uneasiness can be related to questions about the capability of the next generation of practitioners. Take your pick and even add to the list. Having said all that, wise leaders are thinking about and positioning their firms for the future.

A Good Time to Reinvest in the Practice

Many firms, some of which are regarded by peers and clients as being very good practices, are so engrossed with dealing with current clients, projects and staff, while others, in virtually the same market environment, are aggressively positioning themselves for what might come next. The profession continues to enjoy profitability higher than ever in history and public awareness about design in general and architecture specifically seems to be at an all-time high, so what better time propel a practice into tomorrow? But that won't happen without someone paying attention and taking action.

As examples, more than one West Coast firm has opened offices in New York, a city whose inhospitality to outside design firms is legendary. At least one has recruited successfully—and without paying exorbitant salaries—at the same time that some New York firms have unsuccessfully pursued those same people. The key may well be the sense of professional opportunity that the newcomer may provide.

Other firms are capitalizing on their current profitability to reinvest in the way they practice, with particular emphasis on evolving delivery approaches, most significantly “integrated practice” and delivery technologies such as building information modeling (BIM). (With respect to the latter, practices not already getting involved are probably behind the eight ball.)

Still other firms are looking at shifts in demographics, public policy and economics at multiple levels (local, regional, national and international) to gain a better understanding of what to expect for themselves and for their

clients. Clients value the perspective of those who work with them—their architects, advisors, consultants and other outside experts—and the fact that most instances of long-term client-architect relationships occur where there is deep understanding of clients' worlds is irrefutable.

A Huge Dilemma

What is interesting about the current phenomenon of an incredibly robust market is that architects—more than any other profession—are so strongly inclined to give away the financial strength that the economy is presenting on a silver platter. Specifically, architects like to consider the value they provide, but when it comes time to contract their services, they far too frequently price on the basis of the cost of the service rather than the value of the result.

About two decades ago the U.S. Department of Justice successfully blocked price collusion within the profession, which in effect prevented conspiring to establish fees (based on the long-in-place fee schedule that defined fees based on project type and scale). The DOJ concern, obviously, was high prices, and that is what the ruling addressed. It's too bad the ruling didn't also address low price collusion, because that might serve to save the profession from itself.

Something about the genetics of architects leads to an incongruous conclusion: Let's pay more for the talent we need to recruit today, let's pay more for the technology to do our work, and let's cite the increased value in what we do...and then let's reduce our fees to get the work. Absurd is a kind assessment of that logic. Self-destructive is more accurate. So is shortage of courage of convictions: If more value is provided, higher fee is warranted.

“Architects like to consider the value they provide, but when it comes time to contract their services, they far too frequently price on the basis of the cost of the service rather than the value of the result.”

What is even more amazing is the number of practitioners who hastily resort to fee cutting to get work in a strong market. It's bad enough to do it in a weak market, but doing it in a strong market makes no sense at all...no matter how hard the architect tries to rationalize it. If no architect accepted work from clients—a significant component of which are in the public sector—who limit the fees they will pay, those clients won't be served. When the need is strong enough, the notion of free market economy will prevail, and they'll pay appropriate fees for the value of the work. Unless, of course, some architect does it for less because he/she can afford to or because of the sense—perhaps real—that little value is being provided, in which case why a client would hire such a firm is a good question.

The solution, if it's not already clear, has several facets:

- Price services on the basis of value provided.
- Without resorting to specifics that equate to price collusion, encourage other practitioners to engage the same value-based philosophy.
- Avoid working with clients who are unwilling to pay for the value of the results, and let them know why.
- Serve clients very well, thereby continually reinforcing the notion of the high value provided.
- Continually reinvest in the firm—in talent, professional growth, project-related skills, technology, etc.—so that clients always get high value.

Recognizing that the economy will have a downturn eventually and that individual practices will have their own ups and downs, it is wise to avoid squandering profit by holding in place excessive capacity when the firm experiences a downturn. Not making appropriate adjustments increases the financial stress on the firm and encourages competing for work by lowering fees, which clearly is an unwise strategy.

That said, one final piece of advice is for every firm to speculate with a three-to-five year horizon about what is in store for its clients and for the firm. The former allows the practitioner to be part of an ongoing dialogue with clients about their futures and strategies, and the latter contributes to planning intelligently for the firm's future. ■

Hugh Hochberg can be reached at hhochberg@coxgroup.com, or 206-467-4040.

Celebrating 15 Years of Service

**DOUGLAS
ENGINEERING
PACIFIC INC.**

10 Marin Lane
Honolulu, Hawaii 96817
Tel: (808)524-2434
Fax: (808)528-4228

**Power Fire Protection
Lighting Plumbing
Fire Alarm HVAC
Communications**

290 North Main, Suite 6
Ashland, Oregon 97520
Tel: (541)482-3938
Fax: (541)482-6259