Mastering the Business of Architecture

A street-smart, hard-knocks guide to success, prosperity and profit in your Architectural Practice

by David A. Stone
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Get a group of architects together, and the subject of ‘fees’ is almost guaranteed to come up sometime during the discussion.

"How can I get 'better' fees?"

"Why are so many clients asking for fee proposals?"

"Why do we often see such a wide range in the fees submitted by different architects for the same project?"

"Why isn't my practice more profitable?"

You get the idea. We've all been involved in these conversations.

These are the kinds of questions that have challenged this profession for as long as I've been a part of it. I'm told that 'in the good old days' clients never discussed the architect's fee - simply looked it up in a schedule published by the Association, and paid it. That's certainly not been my experience.

The reality is that we practice in a market economy.

Moreover, the market economy is supported by both Canadian and US governments through anti-combines legislation which prohibits the publishing and enforcement of a ‘fee schedule’. The American Institute of Architects continues to operate under a very broad 1990 consent decree - the final 'out of court' settlement of protracted and expensive anti-trust action taken by the US government against it. And - there are numerous examples right here in Ontario of serious legal action taken under Canada's Competition Act against professional organizations whose practices were determined to be anti-competitive.

But, even if there were no such legal prohibition existing...

And, even if there was a willingness within the profession and among clients to return to the 'good old days' model of a fee schedule that would be adhered to by architects and their clients...

We would still have the reality that the range of architectural services which today's clients need and are demanding varies so much from project to project that it would be impossible to design a fee schedule that would adequately address for example...
- Public clients very often have much different needs for our services than private clients.

- Design similar schools for two different boards and you know that their requirements for architectural services can vary quite significantly.

- The scope of services required for a project can be influenced to a huge degree by the need to deal with user groups, community organizations, complex internal and external approval processes, funding guarantors, and so on …

- Many clients are interested in a much broader range of services from architects – things like programming and feasibility studies at the front end, commissioning or facilities management at the back end – in fact they're looking to build a longer-term relationship that is not just project-based.

We are faced with the big question - How could we develop a schedule that reflects the value of the service that we provide to our clients?

And – if we had such a schedule, once the fee was agreed to, what is there to help architects manage that project to a successful conclusion – a satisfied client and a reasonable profit to sustain the practice?

Successive Councils, task forces and committees have wrestled with these issues for years.

So, in responding to the ‘fees and services' recommendations in the 1997 OAA Review, Council decided to try a fresh approach – to engage a consultant whose business is to provide exactly this kind of advice to some of the most successful architectural and engineering practices both in Canada and the US. Practices that are renowned for the quality of professional services they consistently provide to clients. Practices recognized for design, that win competitions and have the highest ‘hit rates' in marketing their services. Practices which are prospering and growing in the market economy. In other words, the kind of practice you would like to be!

The result is Mastering the Business of Architecture – the OAA's 'MBA Kit'.

What is the MBA Kit?

It's an educational resource

Ontario Association of Architects
- helps architects learn to deal with the business challenges of the market economy
- helps architects educate their clients and prospective clients about the value that their services bring to the project — and specifically to that client
- helps the profession educate the public about the services we can provide, and the contribution we make to individual projects, our environment — our culture

It's a day-to-day reference
- full of hard-nosed business knowledge
- with a wealth of business wisdom which we usually have to learn through the 'school of hard knocks'
- packed with leading edge tips and techniques that have a proven history of success

It's a tool kit
- helps the client and architect work together to determine the appropriate scope of architectural services necessary for that specific project in its unique circumstances
- helps the client and architect determine and agree on the fee necessary to deliver those services
- helps the architect manage the project to result in a satisfied client, and a reasonable profit in return

It can be read cover-to-cover — the writing style is deliberately a bit on the edge — even highly technical content is presented with engaging real-life examples and anecdotes, with editorial comment that you will often find quite provocative.

Or, it can be studied section-by-section in depth — perhaps using the companion Continuing Education guides that are in development.

Use it for continuing education within the practice — 'lunch and learn' sessions, self-study, or small-group settings.

Keep it handy when you:
- decide 'go/no go' for the next RFP
- scope the services with your prospective client
- 'bottom-up' an appropriate fee for your services — including a respectable profit margin — and perform the 'reality checks'
- explain the scope and fee to that client
- negotiate the terms of your agreement and 'close the deal'
- manage the project to success for your client ... and you

*Mastering the Business of Architecture*
It’s a whole new approach to the ‘fee question’ … but one that is based solidly on the experience of some of our most successful colleagues in Canada and the United States.

Council intends this to be a living, dynamic practice tool – one which will expand and evolve to reflect changing practice – and the dramatically shifting needs and demands of our clients.

Regular updates are planned – and we are counting on your constructive comments, and the benefits of your experience to help us work together to keep the MBA Kit current – state of the art!

No doubt about it – all of this doesn’t sound quite as simple as the ‘good old days’ – but the reality is that we are practicing in a very aggressive business environment.

*Mastering the Business of Architecture* is designed to help you compete successfully, provide valued professional service to your clients – *and prosper.*

Craig Applegath, Architect
Councillor
Chair, Editorial Team, and
Principal, Dunlop Farrow Architects, Inc.

1999
Since being appointed Practice Advisor at the OAA four years ago, I have received numerous calls in regard to architects fees and services many from members wanting to know how to structure appropriate and competitive fees for projects, and others from clients wanting to better understand the "normal" scope of architectural services.

"Mastering the Business of Architecture" goes a very long way towards better positioning architects to not only arrive at appropriate fees but also to be able to convey to their clients a clearer understanding of the service they will provide for that fee.

Chapters concerning the marriage of fees and services reminded me of the sign in the repair shop, which read,

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"We do work FAST, GOOD and CHEAP...
You can have any two but not all three
If it's FAST and GOOD it won't be cheap
If it's GOOD and CHEAP it won't be fast
If it's FAST and CHEAP it won't be good"
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The MBA kit will provide you with further insight as to why this is so.

The kit is a tremendous value to both novice and veteran alike, and should be read, re-read and discussed within the office to obtain maximum benefit.

John Bobaljik, Architect
Practice Advisor, OAA

1999
Trained as an architect, David Stone has been working in the business of design and construction for almost 25 years. Over the years he's been a grunt draftsman, designer, project manager and principal.

After graduation from the School of Architecture at the University of Waterloo, he quickly gained a greater interest in the business of architecture. So, since 1988 when he began his own management consulting firm in Toronto, he has been helping design and construction firms in the United States, Canada and Australia to greater success.

David lives in Charlotte, North Carolina where he is the founder and owner of Impact Initiatives, Inc. His company exists to help architecture, engineering and construction professionals win and keep customers through imaginative and successful business strategies.

He has provided consulting, workshops and lectures on strategic planning, financial and project management, marketing, and many other topics. He has served as Editor of two of the design profession's most prominent newsletters and is the author of Selling Design Services, Winning Proposals and The Ultimate Project Management Manual.

He is a contributor to industry trade journals and appears regularly as a speaker and panelist at conferences across the continent. David is a regular speaker at conferences and seminars for the American Institute of Architects, American Consulting Engineer's Council and the Society for Marketing Professional Services and has provided valuable hands-on assistance to hundreds of design firms of three to 7,000 people.
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How to Use This Manual
It was a simple question: "How should an architect price a project?"

The answer has turned out to be not quite so simple.

The past two decades have witnessed head-spinning changes in the world of business in general and the design professions in particular. One of the most significant changes has been the dramatic increase in the number of firms practising. Naturally, this has led to hot competition between firms as they scramble to win the same projects.

Simultaneously the government, in the interest of consumer protection, has introduced extensive legislation which, as a consequence, eliminates an old professional tradition of publishing a standard tariff of fees. In the "good ol' days," clients didn’t argue about fees, the architect simply pulled out the schedule and looked up the fee.

These two factors have contributed to making life dramatically less comfortable for design professionals most of whom have little or no formal business training. Well-trained to solve design and construction problems, they are, nonetheless, ill-prepared to thrive in a hard-nosed, competitive business world.

Hence the simple question: "How should an architect price a project?"

As one thing invariably leads to another, the questions started to multiply: "How should you prepare a scope of work?" "How can you be sure the price you’ve established is reasonable?" "How can you protect yourself from low-priced competitors?" "How can you get a client to understand that the higher price is worth it?"

By the time the dust had settled, hundreds of questions had merged back into one short, but tough one:

"What does it take to be successful and prosper as a design professional?"
From the Author...

The answer to this tough question has two parts.

The first part is philosophical and addresses the challenge of positioning yourself and your firm for long-term success. The manual opens by addressing this big question. Volume 1, Section 1 is vital reading for both the individual and the firm who love architecture and want to practice successfully in the new century.

A great deal of what you will read is unsettling. Architecture, as once practiced by noble professionals whose every word was unquestioningly followed by patrons is dead and this manual throws the last dirt on its coffin. Very little that is familiar and comforting to old-line practitioners is left.

However, the new and exciting business of architecture is alive and thriving. Those willing to embrace a radically new understanding of architectural practice will move forward to success beyond anyone’s wildest dreams.

Philosophy aside, the second part of the answer to our tough question is purely pragmatic. It tackles the problem of, “How do I sell this job to this client now?"

This manual is, first and foremost, a practical, not a philosophical guide. While continually referring back to today’s “big picture” context, it will walk you, step-by-step, through a process of communication, selling, pricing, negotiating and managing your projects to come out on top.

Think of the opening and closing sections of this manual as “philosophical bookends” holding up the nitty gritty, street-smart, how-to-do-it answers that answer your question: “How do I sell this job to this client now?"

David Stone
Impact Initiatives, Inc.
This manual is divided into three Volumes:

1. How to sell your architectural services
2. How to price your architectural services
3. How to profit from your architectural services

Each volume is further divided into numerous Sections, each addressing a narrow aspect of the broader issue.

The Table of Contents and this “How to Use” segment assign each Section both a Title and a “leading question” to assist you in identifying the subject matter most closely related to the challenge it helps you face.

The sections are arranged in roughly the order in which you would find out about a project, work to be selected, price and negotiate the contract, manage the project to a successful conclusion then step back and see that project as just one of the dozens or hundreds which make up the work your firm does.

You have options when using *Mastering the Business of Architecture*:

1. Use it as a textbook to be read from start to finish. Architects new to the profession will discover a concise guide to all the things you were never taught in architecture school but desperately need to know. You will win at least ten year’s worth of pick-it-up-as-you-go, street-smart wisdom.

2. Use it as a practice reference. Veterans will find a refreshing condensation of everything you know you ought to be doing. Relying heavily on step-by-step instructions, checklists and case studies, the manual is a reference guide to keep close by. It can form the core of your firm’s standards or augment procedures you already have in place.

3. Use it to build your firm’s standard operating procedures. The manual will walk you step-by-step through your first few projects then gradually become filled with your own margin notes, examples and fine-tuned methods. Since each firm, client and project are different this manual should not and cannot be an answer to every situation that arises. Instead, let it demonstrate a manner of thinking, allowing you to interpret and determine appropriate solutions to the challenges you face every day.
4. Use it as a foundation for continuing education. Young staff members will find a wealth of tips, techniques and tactics to help them through the complex world of clients and contracts. Veterans will discover a valuable update on crucial practice methods for the new century. It provides hundreds of discussion topics for “brown bag lunch” training sessions at your firm and a wonderful tool for guiding the next generation of leadership.

Step-by-step or pick-and-choose. This manual is intended to help every architect thrive and prosper in the new century.
Principal:
I've been reviewing the budgets for all the projects we've done for the Acme Corporation and every job has lost money!

Project Manager:
That may be, but look at how much work they bring us!

Some firms approach business development as a shooting gallery where the approach is, “if it moves, we’ll shoot at it.” The result is plenty of misses and a mixed bag of projects where some are profitable, some are marginal and others are big-time losers. Not only are the clients all over the map, the projects themselves come in all shapes and sizes.

Volume 1, Section 2 walks you through a step-by-step process to evaluate the opportunity which any project presents. Then it gives you an objective method to determine whether or not the current opportunity is worth pursuing.

Begin this section by checking the current project opportunity against the “First Glance Evaluation” checklist. If the score suggests you not pursue the project, write a simple “Regrets” letter to the client and decline the opportunity with thanks.

If the score is high enough, carry on by investigating both the Request for Proposal (RFP) and the client for clues to the nature of the project and the working relationship you are likely to have.

After your evaluation of the RFP and client are complete, use the detailed, Go/No Go checklist to rigorously analyze the opportunity. This 35-question review helps you look at the project from every angle to be sure it is worth winning.

If, after this thorough review, you determine the job is a winner, move on to Section 3 to learn how best to chase it down.

If you are turning the project down because the client appears to be fee-shopping, use the text at the end of the section as a guide to draft your “thanks-but-no-thanks” letter.
Step 2:
I’ve decided I want the job. How should I approach the client?

Go to:
Volume 1, Section 3: Using the client-centered, "benefits" approach to sell value-added services

Too many firms, when attempting to sell their services, have themselves as the focus instead of the client. In today’s competitive world, you must learn how to place your client at the center of the universe and sell your services around that client’s needs.

Before you head into the sales effort, review Volume 1, Section 3. Understand the difference between “features” of your firm and “benefits” to the client. Review the standard letters you use in sales correspondence. Do they communicate features or benefits? If necessary, rewrite them to put the client, instead of you or your firm as the center of attention.

Are there any statements in your standard correspondence, slide shows, display boards, etc., to which someone might be tempted to respond, “So What?” If so, review them in light of the examples in Volume 1, Section 3 and make the appropriate changes.

Before you begin the sales effort that will win this project, use the form in this Section to list the top ten benefits this client can expect to enjoy on this project while working with your firm that they would not get from another design professional.

Make these benefits the central message of your sales effort starting now.
Like every architect, each client is unique. Each has his or her own world in which he or she lives and works and a unique set of priorities from which decisions are made. If you approach each client with the identical message, some will respond well while others will reject you immediately.

Architects who rely on “boilerplate” material, that is, standard brochures and proposals in which only the names, dates and a few details have been changed, have low “hit rates” and regularly lose out on project opportunities.

Before you can sell your services to anyone, you must “see the view from that individual’s side of the table.” In this section, you will learn how to craft your message specifically for this client’s needs on this project. Gather your project team and those who know the client best and hold a brainstorming session to help you understand this client’s perspective. The exercise outlined in this section is simple, takes little time, yet returns enormous advantages.

The brainstorming session is divided into four parts, each answering a specific question:

1. What are the “hot buttons” on this project?
2. What would be the traits of the “ideal firm” this client would like to hire?
3. What objections will this client have against hiring your firm now?
4. Who are the competitors you are likely to encounter and what are their strengths and weaknesses?

Having completed this short exercise, you will have an “inside-the-client’s-head” view which you didn’t enjoy before. You will understand that individual’s priorities and concerns. You will know the aspects of your service he or she will respond to and those likely to be considered unimportant.

Armed with this knowledge, you can now go forward with a sales effort that is laser-focused on this client, and this client alone.

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**Step 3:**

What can I say that will convince the client to retain my firm?

**Go to:**

**Volume 1, Section 4:**

How to determine your client’s “hot buttons” in order to sell them what they need on this project
**Step 4:**

How can I define and clarify the services this client wants to or should be buying from me?

**Go to:**

**Volume 1, Section 5**

How to create a Work Breakdown Structure (WBS) which allows you and your client to rationally determine the services that are right for this project

**and:**

**Volume 1, Section 6**

Determining scope on non-traditional projects

- Schematic Design
- Design Development
- Contract Documents
- Bidding
- Contract Administration

This list of project phases has been around so long every architect knows it by heart. It is so ingrained in the industry that it even forms the basis of standard fee calculations. But there are major potholes in this road. For example:

- What, exactly, does Schematic Design include?
- Where does Schematic Design end, and Design Development begin?
- Where does Design Development end and Contract Documentation begin?
- What happens to these phases on a Fast-Track or Design/Build project?

On most projects the distinction between these phases is blurred. And, with computer-generated projects the norm, the separation becomes even more fuzzy since a subsequent phase simply adds more data to a previous one.

While the traditional breakdown may accurately describe the breakdown of phases on some projects, too many projects are force-fit into this mold. The result is a badly defined and poorly contracted project. Also, without a crystal clear definition of precisely what is and what is not included in the services you are providing, you are setting yourself up for a financial loss, a law-suit or both.

The fact is, this traditional phase breakdown has the potential to cause more harm than good and it is past time to adopt a better method of defining project scope.

The ability to clearly define a finite scope of work on your project is vital to the success of the job and your firm's financial prosperity. Look through and study these two sections carefully. Review the examples and try the methods out on several projects you have already completed.
Perhaps the most serious challenge facing architects in practice is the ability to control “scope creep.” Scope creep is the phenomenon in which the scope of a project gradually grows until the project finishes up as something much larger than it began, but the architect’s fee is still the same size.

In the war against scope creep, architects can be their own worst enemy. Accepting contracts based on loosely defined scopes of work, makes it difficult or impossible to negotiate with a client who insists a particular item should be included in your services. These two sections will help you define precisely what you will and will not include in your services.

Take your project and organize it according to the WBS (Work Breakdown Structure). When finished — and you will likely need to take several tries — you should have a clearly defined listing of the phases this project naturally breaks into, and the detailed tasks necessary to complete the job.

Use the Detailed Task Checklist in Section 2 to stimulate your thinking and ensure you’ve missed nothing. This checklist is not to dictate the precise tasks you should include. If the tasks listed match those of your project, by all means use them as they appear in the checklist. If they don’t, modify them to suit or use the list to help identify the tasks necessary for your project.

Start every project with a new task list. While many projects are similar and some tasks will be identical, never simply adopt the task list from one project for another. While re-using a list may seem a time-saver, it is an open invitation to forget some unique aspect of the project or special circumstance of the client.

You may not be familiar with this approach. It requires a higher level of effort in the project planning stage and forces you to think through the entire project to determine exactly what will and will not be necessary. It is far easier to guess at a fee and break the project into the traditional phases. Don’t fall back into that trap!

With a detailed work breakdown and scope in your hands you can easily go on to precisely calculate a fee. It is far more accurate to estimate the time and cost for individual tasks than to rely on an arbitrary percentage of a roughly (and prematurely) estimated construction cost and hope it covers your costs.

Not only will this precise Work Breakdown help you in fee calculation and project management, it is a remarkable ally at the bargaining table. When asked by a client to lower your price, you can easily produce the detailed list and ask the client to select the tasks to be removed to allow you to bring the cost down.
How much is a good idea worth?

For people like Henry Ford and Bill Gates, it is worth billions. Architects, on the other hand, have traditionally measured the value of ideas by the length of time spent documenting them. For this reason, it is vital that you calculate and maintain accurate hourly rates for the time you and your team spend on projects.

Hourly rates, however, come in many forms including labour rates, break-even rates, billing rates, blended rates, etc. This section helps you understand and work with each of these variations on the hourly theme. Before you can establish a reasonable fee or negotiate with a client you must go through the exercises in this section.

There are a number of things to watch for in this section that will impact your firm:

- Make sure your hourly billing rates include the proper multipliers for overhead and profit. Don’t forget to allow for mandatory payroll expenses.

- Calculate the proper profit multiplier. What may seem like the logical manner to determine profit may, instead, short-change you by two or three percent.

- Beware of “crazy numbers.” Using billing rates that are exact multiples of labour costs can force you to make unintended concessions at the bargaining table.

- Think about simplifying your client's life and reducing your headaches with Blended Rates which are described in this Section. Especially useful for the very small firm, Blended Rates can lead to faster turn-around on your invoices and fewer arguments over billing rates.

- Implement Per Diem rates to simplify your billing process and recover your real costs.

If you are looking for a key to profitability, this section is a “must-do” before you begin fee calculations or negotiations on your next job.
In today’s market it’s rare that a client will allow an architect to proceed with a project without some idea of the end cost. While Time and Expense contracts are occasionally used, they are often accompanied by an upper limit or cap which the client has stipulated. Even if no cap is set, the client will insist on an estimate of time (and thus cost) for the project.

In short, regardless of the agreement with your client, you will invariably have to prepare an estimate of the amount of time – and from that, cost – that will be required to complete the job.

The Sections leading up to this time estimate have repeatedly emphasized the need to break the project into smaller sub-projects and then into the detailed list of tasks which must be accomplished. Now, when you are ready to estimate the duration of the project, you will discover it is far easier to estimate the time for each finite task and add them together, than it is to estimate the overall duration of the entire project.

This Section encourages you to maintain and refer to the time data from previous projects in order to increase the accuracy of your estimates. Contractors have always kept detailed historical data to prevent estimating mistakes. You, too, can benefit from the collected wisdom of your past experience — as long as it’s written down!

When building your time estimates for each task, consider the unique aspects of each project. What are the circumstances or requirements which will make this project more or less complex? Use the “Variations” table and checklist in this Section to compare the complexity and demands of your current project with another, “standard” project.

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**Step 7**

How can I determine how long this project ought to take?

Go to:

Volume 2, Section 4

Task duration: the toughest call in the whole process.
You have prepared a detailed list of the tasks needing to be accomplished to complete this project and you have built a time estimate for each of those tasks. Now it’s time to prepare the fee which you will propose to the client.

This task is one of the most important in your practice. Get it right and you can have a successful project, a satisfied client and a healthy profit. Get it wrong and you will either fail to win the project or risk the dire consequences of a failed project and an unhappy client.

Because of the obvious pressure to get it right, this Section is built on the premise that, in order to get an estimate right, you should never believe just one source.

Your fee quote will begin with the detailed WBS and task list which you have already prepared. Using this list as a base, the cost of all tasks are added to determine a total cost for the project labour. Then, to ensure everything has been accounted for, the other fee components including overhead, direct costs, contingency and profit are added to the labour. This inclusive method -- Bottom-up Budgeting -- will become not only the foundation of your fee calculation, it will serve as the cornerstone of your project tracking system. Without this detailed cost breakdown showing how time and money are allocated through a project, you will be guessing at your fee estimate and the eventual management of the project.

Once the Bottom-Up budget has been prepared, compare it to a Market Value estimate which will often suggest you lower your fee to a more realistic number. Using Market Price budgeting, you will see how a market-acceptable fee is distributed through the various tasks which you must perform. At this point you will be able to determine whether you and the client are even in the same “ballpark.” If not, this is a good time to sit down to discuss the project scope or decline the commission.

If the Bottom-Up and Market Price budgets are within a reasonable range, move on to check these budget figures against several “rule-of-thumb” budgeting methods. These are intended only to provide a “reality check” against the more detailed budgeting processes. They should never be used alone!

On the estimating premise that you should “never believe just one source,” you should combine as many estimating methods as possible to determine your fee. If all the methods agree and provide a similar number, you can be confident you have a good fee which may be acceptable and competitive. If several of the methods suggest fees which are significantly different, this is a strong signal to go back to check your numbers and your assumptions before committing to your client.
It's one thing to be fastidious in your fee calculations. It can be quite another to persuade your prospective client that the fee is reasonable. These Sections gives you the background and detailed instructions for negotiating not only the fee, but all the terms of your contract.

Begin by using Section 1 to clearly establish your negotiating objectives. Are you working toward a win-win solution, or do you see this as a “deal” negotiation? Any project on which you will work with the client for a period of time is best treated as a win-win, “relationship” negotiation.

The key to success in any bargaining session is proper and complete preparation. Section 2 helps you prepare by highlighting the keys to becoming a successful negotiator, identifying the sources you can rely on for leverage in your bargaining session and reinforcing the enormous value of research and information. You will also learn to prepare a key collection of six lists prior to the beginning of your negotiating session.

Despite its enormous focus, price is far from the only issue on the table. In fact, by focusing on the other six discussion areas, you can often realize the fee you are seeking. Study the seven steps to negotiating a design contract and discuss them with your team before you begin to bargain.

Spend time with Section 3 of this Volume in order to avoid the most common mistakes made by architects at the negotiating table. Some will take effort and study to overcome while others require only a simple awareness of the issues.

Finally, when you and your client are sitting across the bargaining table, whether literally or figuratively, you need to know the tactics that are used to both win concessions and defend against aggressive attacks. Section 4 spells out more than a dozen negotiating tactics which are used by the best negotiators to ensure the outcomes they want.

It's likely you will find some of the tactics distasteful and you may not be able to imagine yourself ever using them. But be warned! These tactics are used against you all the time. If you ever hope to hold your own and achieve the win-win outcomes you want, you need to know these strategies.
Step 10

I was awarded the project. Now what?

Go to:

Volume 3A, Section 1

The entrepreneurial Project Manager

All the work you have put into winning the project is over. You’ve been rewarded with the contract and the client is looking forward to your team delivering a successful job. In most firms, the next step is simply to start working and press forward until it is complete.

In those firms the project will move along — sometimes smoothly, sometimes encountering difficulty — until it has been completed. If the project is done on time and within the client’s budget, we consider it a success. If we’re lucky enough to have project costs totalling less than the fee paid, we call it a profit and pat ourselves on the back. Then we move to the next project.

There are other firms, however, which take a different approach. They feel that meeting a client’s schedule and budget is a minimum requirement; that delivering the budgeted profit is the project manager’s duty, not a remarkable accomplishment. These firms recognize that success in project management equals success in business. And successful project managers do far more than simply drag their projects across the finish line.

Before you begin your next project, study this section to learn an entirely different — and provocative — approach to project management.

Here you will learn to see the project manager as a business entrepreneur. Your projects will represent your own small enterprises with all the challenges and rewards of running a small business: customers to service, work to be processed, finances to manage, systems and procedures to be developed and human resources to supervise. With a very distinct and understandable five-step approach, you can bring an energized, total-vision approach to your jobs to ensure success on this project and all the projects which follow.
Before any client would ever consider constructing a building, he or she goes through a planning process. If the building is of any size or complexity, they hire a design professional to work through the entire project on paper or computer before actual construction begins. The purpose of this exercise is obvious — the smart owner wants to identify and eliminate all possible conflicts and problems before construction begins to avoid mistakes and delays and the high costs they produce.

It seems ironic that architects, who exist in order to plan projects, often appear to ignore the wisdom of planning when it comes to their own project undertakings.

While the “Big Three” project planning items are, of course, scope, schedule and budget, there is far more to getting ready for your job than these. This section walks you through a process which identifies eight elements of a good project plan. Several of the elements of your work plan are covered in detail in other parts of this manual and you will be referred to these sections when appropriate. In all cases, you will be instructed how to prepare each section of the plan.

Depending on the size and complexity of your project you may need to spend a lot or only a little time in this project planning process, but every minute you spend will result in significant reductions in errors and omissions and dramatic increases in quality, client satisfaction and profitability.

Step 11
How should I plan the project work to ensure a successful outcome?
Go to:
Volume 3A, Section 2
Project planning
The project is underway. How can I tell (before it's finished) if the project is on schedule and within budget?

Go to:

Volume 3A, Section 3

Tracking project progress using the Earned-Value Method

Just about every firm operating today maintains some sort of job costing and accounting process. These systems, which are often automated, collect time sheet data, maintain time and cost records, facilitate the billing process and — theoretically — allow the architect to track the status of a project as it moves ahead.

Unfortunately, many firms do not take advantage of the capabilities these programs offer. While regular reports are printed and distributed, many project managers don’t know how to interpret the data provided. Additionally, while the time and cost data in the reports may be accurate, the ability to track a project depends completely on the ability to estimate the percentage completion of a project at any point. In this area, project managers are notoriously poor. In many firms the investment in project management tracking software has seen little or no return.

This section outlines a simple and easily mastered method of tracking the exact status of any project at any time. Known as the Earned Value Method, this technique can be utilized by firms using any of the available, off-the-shelf project management software programs or a simple spreadsheet. For the smallest of firms or projects, it can be done manually.

The method requires that the project manager prepare a detailed scope list and a task-related schedule and budget. Each of these requirements is a fundamental project management requirement anyway and preparation methods are detailed in various sections of this manual.

Perhaps of most benefit, is that this method provides an objective means of establishing an accurate evaluation of percentage completion and removes the guesswork from this error-prone activity.
In spite of the best project management skills and intentions, projects will still occasionally go awry. Regardless of the reason a project is falling behind schedule or running over budget, the project manager's job is to bring that job back in line.

It's not always apparent that a project is falling behind so a project manager must learn how to recognize an out-of-control project. This section outlines the warning signs of a project which is headed for trouble.

Of course, it's not enough to be aware that your project is in jeopardy, you must take action to reverse the trend and bring it to a successful completion. Review the listing of the most common causes of "project disease" and what you should do when it strikes your job. Many of the tactics described are simply common sense actions but under the pressure of a failing project, common sense is sometimes in short supply. Use this section as a checklist to guide your decisions in the heat of the crisis.

If these tactics can be used to rescue projects which are in trouble, it's only sensible that they would keep healthy projects out of trouble in the first place. Likewise, they can be used to make good projects even better. Don't just refer to this section when a project is going over the brink to oblivion, make it a habit to implement these techniques to raise the standard of performance on all your jobs.
Step 14

Shouldn’t I be making more money as a business owner?

Go to:

Volume 3B, Section 1

Profit: what it is, what it isn’t, why you need it

If you are a Principal of your firm, you are among the ranks of the millions of business owners who provide the energy and impetus for the free enterprise system. Business owners like you, whether they are design professionals, manufacturers, retailers, bankers or street-corner salesmen, put themselves and their financial security at risk every day to provide the goods and services needed by their customers. They log long hours and high anxiety to make their business successful and the result is never guaranteed.

These entrepreneurs both expect and deserve compensation in exchange for the effort, responsibility and risk they take on. This compensation comes in the form of the profit their business generates.

In addition to being a compensation for risk and effort, the profit your business provides is vital to the long term growth and prosperity of your firm. Without profit you would be unable to invest in the new technologies, training, staffing, equipment and marketing that is vital to growing your business and serving your customers. If the profit is too small, not only will you be unable to invest in the growth of your company, you may decide the return on your investment simply isn’t worth the trouble.

For all these reasons, profit is vital to your business. Unfortunately, whether due to a distorted view of “professionalism,” a puritanical work ethic or exploitative profits by “big business,” architects are often reluctant to talk about profit or act aggressively to ensure profits in their businesses.

This section focuses on the subject of profit. It explains why profit is necessary, how it is used and how it can be calculated and ensured. This section sets out a new standard of project management responsibility and should be read at the kick-off to each project. It helps bring profit to the front and center of discussion and treats it, along with client satisfaction, design quality, schedule and budget compliance and all the other criteria, as a vital measure of overall project success.
The “thrill of the hunt” is an important motivator for many architects. Unfortunately, the excitement of winning the project often overshadows the serious need to negotiate a good, mutually beneficial and fair contract.

There are many options when it comes to the type of contract you can sign. While you are always better to use standard industry contracts, even these provide options in the manner in which the fee is calculated. Some contracts base the compensation on a multiple of your cost to do the work. Others establish a fee based on the client’s perceived value of the services you will perform. Still others combine elements from each of these methods.

This section reviews the contract options which are available to you and discusses the advantages and disadvantages of each. You will discover that some of the more commonly-used contract formats have distinct disadvantages for you and your clients. Using the information in this section, you and your team should become aware of the situations in which one or another of the available contract types is appropriate. Then, during negotiations, you can use these facts to influence your client.

Be sure to review this section before signing or preparing any project contract.
It would be nice if everyone honoured the contracts they signed and lived up to their obligations. You, on the other hand, have to deal with reality. There are plenty of occasions when a client, for one reason or another, does not pay your invoice when it's due. Sometimes the reasons are legitimate, others less so. In this Section you will learn to minimize the occasions when collecting your receivables becomes a problem and how to take appropriate action when these occasions occur.

The process of collections should begin before your contract has even been signed. This Section outlines a series of proactive steps you can take to ensure most of your bills are paid promptly and without conflict. Starting at the negotiation table and progressing through contract signing, the billing process and then to collecting what is yours, you should follow a step-by-step, sequential process to put increasing pressure on those who don't pay.

Sooner or later, however, you will run into the client who simply refuses to pay a legitimate invoice. In this case you'll be forced to take more drastic action. This section lays out a sequence of steps you should take to protect your interests and work toward collecting all or as much of your money as possible.
Volume 2, Sections 3 and 5 both discussed the elements which make up the fees you charge to your clients. These elements included labour, overheads, direct costs, contingency and profit. For most firms the largest of these components by far are the overhead costs a firm must pay to operate on a day-to-day basis.

You must constantly monitor your overhead rate and be aware of everything which contributes to it. This section discusses the detail of the various items which contribute to your overhead costs.

Overhead costs also have another, large influence over the way many firms price their services and negotiate contracts. Firms who regularly deal with government or large corporate clients are usually asked to monitor and report their overhead rates. The enormous buying power of these large organizations allows them to demand this information which would otherwise be none of their business. However, since we all like the work they provide, we have to play by their rules.

For the purposes of these contract negotiations, as well as for your own, internal management purposes, you must learn to calculate your overhead rate. This number — expressed as a percentage of your labour costs — must be monitored regularly. As a firm grows its overhead costs will naturally increase. However, it’s far too easy for those costs to get out of hand.

This Section shows you exactly what should and should not be included in your overhead costs and walks you through the step-by-step method to perform the necessary calculation.

Beware! Many government clients have items which they will not allow to be included in an overhead rate calculation. This Section lists those items which are most commonly disallowed, but check with your client to ensure you have identified the items which they specifically exclude.

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**Step 17**

My firm is growing now. How do I know if costs are under control?

Go to:

**Volume 3B, Section 4**

Overhead rate: Why it’s an important number to you
Managing the operation and growth of any company is much more an art than a science. If management were able to be reduced to a series of step-by-step tactics, far more companies would enjoy enormous success and financial prosperity.

Despite the lack of a simple book of instructions, there are a series of well-recognized, “rules-of-thumb” which smart business managers use to monitor and adjust the performance of their companies. Each industry has its own particular rules so retailers pay attention to different numbers than manufacturers. The design professions also have a set of “key indicators” which should be understood and monitored to ensure the growth and prosperity of your firm.

First you must learn to calculate and monitor your firm’s Optimum Ratio. If this number varies too far from its proper position, it is a sign of poor firm health. This section shows how to determine the Optimum Ratio in your firm and what action you should take if it varies excessively.

After Optimum Ratio, you will learn to forecast Cash Flow on which the continued operation of your firm depends. Predicting both revenue and expenses, then using Cash Flow analysis, you can predict important needs in both financing and human resources.

The Section then introduces you to an important set of “key indicators” which are easy to determine and monitor from financial documents you will already have prepared — your Financial Statements and your Balance Sheet. In each case you are given the insight into why a particular indicator is important and the formula for its calculation.

The Section winds up with a detailed Glossary of financial terms which you need to know and understand in order to monitor and manage the financial health of your company and to have useful and meaningful discussions with your Accountant and Bank Manager.