

Starting a new firm: Practical advice for the adventurous

Practice Matters

By Peter Piven, FAIA

Almost every architect has, at one time or another, contemplated starting a firm. There are an almost unlimited number of reasons why one might do so. But why would anyone start a new practice when the economy is bad? With the marketplace more competitive than usual, it would seem that a new firm wouldn't stand a chance.

Contrary to this conventional wisdom, many people start firms during periods of economic recession. Charles Dickens's *A Tale of Two Cities* famously begins, "It was the best of times; it was the worst of times." In a way, recessions are like that. They often create conditions that allow new practices to emerge out of circumstances that at the outset seem more like crises than opportunities.

Layoffs are one reason that people strike out on their own. Because labor costs are approximately 40 percent of an established firm's net revenues, it's almost a sure thing that individuals who are quite capable of starting their own firms will lose their jobs when income declines and there is no relief in sight. Although cutting those at or near the top of the salary schedule may not be the smartest decision, in the short term it provides the greatest economic benefit. Sometimes good people leave because they already see the writing on the wall.

Much of this article is based on Architect's Essentials of Starting a Design Firm, by Bradford Perkins, FAIA, and Peter Piven, FAIA, published this month by John Wiley & Sons.

At that point, these "liberated" individuals are left to contemplate their futures. Inevitably, some will become masters of their own destiny and leap into the great void called independent practice.

As Massachusetts architect Earl Flansburgh wrote in *RECORD* some 20 years ago, "There is no good time to start a new firm, only better times." He was right. Although it may be easier to start a firm in a booming economy, recessions often bring new firms great opportunities. Clients who may be reeling from the same economic pinch that's affecting our profession frequently welcome the arrival of new firms with lower cost structures. Clients often find young professionals' personal service and eagerness to please very appealing. On the other hand, larger firms that have been unwilling to take on small projects when they are busy may find they are unable to compete effectively for such projects when they need them just to keep their overhead covered.

What it takes

Houston architect S.I. Morris was being too modest when he said, "It's not very difficult to do well in this business. All you have to do is get work and execute it successfully." Of course, it's not that easy. So, what fundamental attributes should a firm's founders have? They must be leaders—that is, capable of creating and communicating a clear vision for the future—and they should be able to motivate others to help them achieve it. A

firm's leaders should be able to articulate how their new firm intends to distinguish itself in the marketplace; for example, by using a unique design philosophy or technical superiority, or by pledging to give clients extraordinary service.

From a practical perspective, owners must be able to manage people, which is different than being good leaders. Managers assign tasks, make work plans, supervise, mentor, and develop talent. They need marketing and selling skills to keep the firm busy. Finally, owners

Teams of people who can work together and are mutually supportive usually create far better businesses than any one person can alone. Partners can help settle technical, legal, or managerial questions and are useful where more than one pair of eyes is essential to maintaining work quality. Many sole proprietors feel unable even to leave their firms long enough to take a reasonable vacation; a partner can keep the bases covered.

The classic firm leadership mix combines individuals who have the



must have money-management skills and provide enough capital to finance the firm's start-up and meet additional financial obligations as they arise.

Choosing partners

It is unusual for any one individual to have all of the skills necessary to start, build, and lead a successful practice. That's one reason why new firms often start as partnerships.

business-development skills needed to get work; the technical acumen to successfully complete it; and the management aplomb necessary to work with personnel and achieve the firm's financial goals. Things work best when each partner appreciates the importance of these attributes and has the ability to assume some of the responsibility for each of them.

Regardless of the firm's organi-

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zational structure, the relationships between principals can either be a fundamental strength or can significantly damage the company's chances for success. Here are some things to consider when thinking about a suitable partner:

- You will probably work best with partners whose values are compatible with yours.
- Partners should like, respect, and trust each other. They do not have to be close friends, although this can be helpful.
- Partners do not have to put in equal effort or achieve equal results, but each must fill a principal role—as a manager, design partner, or business developer, for example—and make a principal-level contribution to the firm's well-being.

Once you've chosen a partner or partners, here are some keys to making the arrangement work:

Most successful partnerships have principals with complementary personalities and skills who respect their partners' different capabilities—in fact, one of the best things about your partners could be that they are not just like you. Strive for fairness in all things—allocation of financial distribution, professional

the cost of funding operations until sufficient cash flow to sustain operations has been established.

One of the first questions most architects ask when contemplating a start-up is how much money will be needed. No two start-ups are exactly alike, but most find it necessary to have enough cash to cover three to six months of operating costs, plus the amount needed to cover organizational expenses. One way to calculate this is to make up a budget, very much the way that you would cost out a schematic design for a new building.

Organizational expenses to be considered are acquisition of office space and leasehold improvements, furniture, computer equipment and software, printed materials, marketing materials such as announcements and brochures, and office supplies. Operational expenses will be incurred for such things as salaries, benefits, rent and related occupancy costs, insurance, taxes,

travel, copies, telephone, shipping, and so on. It may be a good idea to include a worst-case contingency fund for use in case cash flow doesn't materialize as soon as the partners hope it will.

And when will the cash start to flow? Some architects start their practices with a commission in hand, or at least the promise of one, which will enable them to begin work almost immediately after they open their doors. But services performed today will not produce cash until a client is invoiced and the receivable is collected, which can be weeks or even months later. The

collection period norm is 90 days, although small start-up firms often get their bills paid much sooner.

If the firm starts without a commission in hand, it will need much more cash to keep going while the firm markets its services, secures commissions, performs services, sends invoices, and, finally, begins receiving enough payments to make its cash flow positive.

Sources for initial capital include personal savings; loans backed by equity in personal real



estate; loans from friends and relatives; personal credit cards; Small Business Administration loans; and commercial bank loans.

Entrepreneurs should not be surprised when they discover that banks are reluctant to loan money to them. Banks want to be lenders, not investors. They don't want to be the primary stakeholder—and risk-taker—in your firm, and they prefer that architects provide at least half their start-up capital from their personal assets.

Professional services

Every firm needs a banker, and sooner or later most need a lawyer, an accountant, and a tax adviser, as well. Some even employ business consultants. Even those who choose to go it alone as sole proprietors shouldn't feel that they are alone—there are many sources of assistance for you.

When considering providers for legal, accounting, banking, or business-consulting services, look for someone who listens well, understands the unique problems of your profession, and has the requi-

site experience and knowledge to keep their learning curve to a minimum. If you have a specific problem, you should weigh carefully whether the solutions they propose appear to be effective and proportionate to the issues at hand, and whether proposed costs are appropriate for the circumstances.

Architects consult attorneys to assist with partnership agreements, owner-architect agreements, and possibly liability and labor matters. It is essential that you establish a

relationship with a knowledgeable attorney you like and trust. Frequently, a 5-minute telephone conversation with an experienced attorney can provide exactly the right information that will save hours of misdirected effort or needless concern.

It is not uncommon for architects to begin practice without the help

of an accountant. If a firm stays very small, or operates as a sole proprietorship, it may never need accounting assistance. However, if a firm begins hiring more than a few employees, or the firm's legal organization is changed to a partnership, subchapter S-corporation, a professional corporation, or limited liability company, then more extensive record keeping and complicated tax returns are inevitable. These demand the services of an accountant. A good accountant can help the newly minted practitioner by setting up a payroll and by giving advice on how to set up a system of accounts that will facilitate both record keeping and financial management.

Since there is no practical way to operate a firm without a bank account, it is imperative to develop a good relationship with a banker. Bankers are important members of the community, especially small communities. In addition to their understanding of money and real estate markets, they generally serve a wide variety of individuals, companies, institutions, and government agencies. Consequently, they

MOST START-UPS NEED THREE TO SIX MONTHS OF OPERATING CAPITAL, PLUS ENOUGH TO COVER ORGANIZATIONAL COSTS.

credit, and the other rewards of ownership.

Put the basic understandings of the partnership or shareholders' agreement in writing—ambiguous or less-than-thoughtful language in such agreements has caused many partnerships to unravel.

If it turns out that your partnership doesn't work, you should try to end it quickly, and if at all possible, amicably.

Capital requirements

Start-up capital is crucial for any new firm and is required to fulfill two basic needs: initial expenses and

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develop a useful understanding of these entities—knowledge that can be of service to their architect-clients. Many architects have done work that was referred to them by their bankers.

Since most architects learn to run their business on the fly, it may be helpful at some point for them to seek the advice of a management

consultant. The best consultants have assimilated what they know from working with a wide variety of clients in different situations. They understand the underlying issues related to operating a business in a particular profession and can quickly apply their knowledge to new problems. They often provide perspective and impartial feedback that can be

most useful when principals are grappling with crucial decisions such as whether to grow or move the firm in a new direction.

Ethics: start out right

Architects and other design professionals are expected to practice ethically, of course, and it almost goes without saying that one

should establish one's firm on the highest of ethical principles. The AIA's Code of Ethics and Professional Conduct is a good place to look for guidance, even if you are not a member.

Generally speaking, the ethical questions most likely to be encountered by persons starting a firm relate to their conduct toward their

former employers.

All architects start out as interns who are employed by others. Those who start their own practices almost inevitably form the relationships and make the contacts that will enable them to go out on their own later while they are working for someone else. When opportunities to practice in your name come along, you may even try to find a way to serve private clients while remaining employed. If you take on outside work, you must use your own identity to get it and your own time and resources to do it. Don't ever imply that you represent your employer to get work for yourself. Always continue to work conscientiously for your employer.

Always ask permission before removing documents. Your employer is ethically obliged to provide copies of documents for projects on which you worked, but you should expect to pay for these copies yourself.

If, in the process of marketing your new firm, you are showing

work you did for a former employer, take credit only for the work that you actually did. Be sure to cite your employer on every project on which you participated as an employee.

While you are proscribed from interfering with your former employers' contracts, you are free to inform their clients that you are beginning your own practice. However, if you signed a noncompete agreement with your former employer, other conditions may apply.

You can offer fellow workers employment unless you have signed a noncompete clause that prevents it. In this case, it is best to inform others of your intention to start a practice, then let them decide to join you if they so wish.

You may be surprised to find that former employers are often willing to provide advice and support, including references and, in some cases, referrals. Start your firm in an honorable way, and never burn bridges—you may want to cross them again. ■

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