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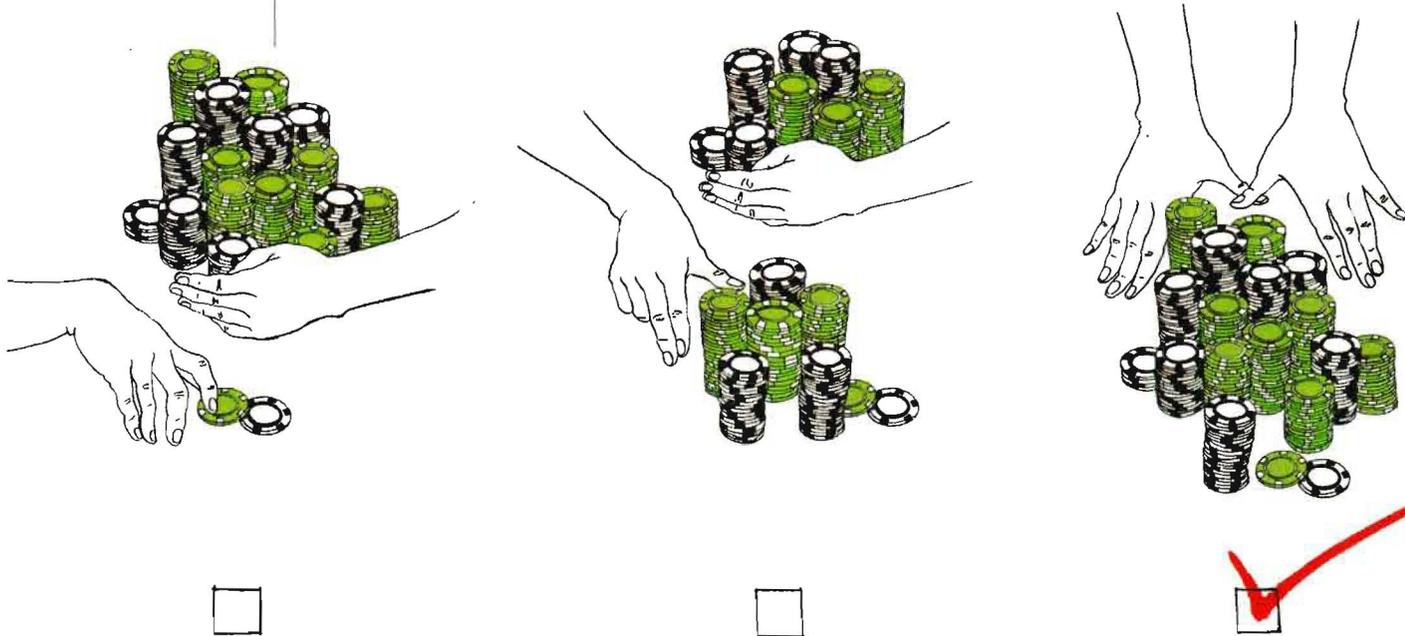


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→ STRATEGY

Risk vs. Reward



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TO GET NEW BUSINESS, FIRMS ARE TAKING ON MORE UPFRONT DESIGN WORK, DEVOTING RESOURCES TO PROJECTS THAT MAY NOT BE SURE THINGS. AS THE FINAL ARTICLE IN OUR ARCHITECTURAL FEES SERIES SHOWS, IT'S A CALCULATED GAMBLE THAT, EVEN WHEN SUCCESSFUL, DOESN'T ALWAYS MEAN A NICE PAYDAY.

AS A PRINCIPAL and the senior director in the Cambridge, Mass., office of architecture and engineering firm KlingStubbins, Scott Simpson has vast experience when it comes to every aspect of new business development. Yet the deep and long-running recession—which has roiled the industry and led to fewer projects and fiercer competition for the work that is available—has forced him to rethink some of his strategies.

"It used to be that a hit rate of 25 percent was considered average, but today 10 percent is more the norm," Simpson says about vying for new business. Whereas in the past maybe five to 10 firms chased a project, now there can easily be 20 or more. To win new work, Simpson adds, "many firms are upping the ante by providing more upfront design as part of the process. When any new opportunity comes up, design firms are swinging for the fences."

The problem for many practices, however, is that

doing upfront work to gain leverage with a potential client can be a risky business proposition. With so much staff time and so many resources needed to put together a winning pitch in such a competitive environment, firms could end up spending most, or even all, of their revenue and profit from a project. As the economic downturn lingers and many firms move into what they call survival mode, they are trying to strike a delicate balance between the costs of securing work and the financial rewards that new projects will provide.

"Regrettably, we have had to soften our policies," acknowledges Armando Gonzalez, founder and principal of Gonzalez Goodale Architects, a 33-person firm in Pasadena, Calif., that specializes in institutional projects. "There are times when we will offer our smaller-scale upfront work on a discount, especially for our

“WE DON’T WANT TO BE IN A BUSINESS WHERE CLIENTS WANT FREE WORK,” NOTES EL DORADO ARCHITECTS’ DAN MAGINN. ALL OF THE ARCHITECTS INTERVIEWED FOR THIS ARTICLE SAY THAT PROVIDING TOO MUCH UPFRONT WORK, ESPECIALLY WHEN COMBINED WITH THE TREND OF FEE SLASHING, IS NOT A SUSTAINABLE WAY TO OPERATE.

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nonprofit clients.” His firm also maintains a policy of entering only one or two paid, credentialed competitions a year—although the fees, Gonzalez notes, rarely cover the costs.

Firms large and small face the same dilemma. KlingStubbins, which has about 425 staff in five U.S. cities as well as in Beijing, has entered more competitions over the past year and, since May, about 30 to 40 percent more RFPs, according to Simpson, even though financing for these projects might not yet have been secured. In most cases, the work involves master planning, a basic building layout, and perhaps a rendering. Simpson describes such an effort as “the appetizer,” something that can be done fairly quickly. “The cost is reasonable if you get the work but very expensive if you don’t,” he explains. “Spending \$25,000 on a losing effort comes right off the bottom line.”

David Ling, founder and principal of his own, eponymous boutique New York practice, which has a staff of three, says clients are shopping around more these days before choosing an architect, and demanding—and expecting—extensive upfront work. “They keep asking for services and design suggestions before a contract is even signed,” he says. In one case, for a gallery space in midtown Manhattan, Ling responded to the RFP with renderings, a conceptual design, preschematic layouts, and budgets and fee proposals, plus an initial iteration with two options. This led to another iteration and further refinements, but in the end, Ling’s firm didn’t get the \$400,000 project.

Some firms have not given in to the pressure, even in a recession. El Dorado Architects, a 13-person firm in Kansas City, Mo., has a policy of doing open competitions only if the firm was preselected for the short list. In some instances, allows Dan Maginn, one of El Dorado’s four principals, “If we have a good feeling that a project is out there and we have a real shot at it, we would be comfortable doing a feasibility study and conceptual design and budget analysis. In our minds, that’s worth it to the owner, and [it] helps us understand the project and prove our value.”

Maginn says that El Dorado’s philosophy is based in part on the belief that “we don’t want to be in a business where clients want free work.” But it also makes good business sense: All of the architects interviewed for this article say that providing too much upfront work, especially when combined with the trend of fee slashing, is not a sustainable way to operate. Long-term, Gonzalez says, “we do not want this to be a model for our firm—or for our profession.”

Jack Reigle, the president of Sparks: The Center for Strategic Planning, a strategy and marketing consultancy for design firms, says that entering too many competitions with too much upfront work risks squandering a firm’s resources. Instead, he suggests that practices target competitions to specific markets they are already in or want to enter. “You have to decide what level of focus and commitment you have to that market,” Reigle explains.

That’s true for Chicago’s Brininstool, Kerwin & Lynch, which is pursuing business in China. The firm is one of eight that recently entered a paid competition for a mixed-use development project in China which could ultimately be valued at \$700 million. The firm provided a conceptual design and a model that took two principals and four staff members six weeks to complete. Should the firm win, the competition’s \$100,000 payment will come close to covering the costs, figures managing principal Tom Kerwin. “But the potential upside,” he adds—a project fee that could be seven or eight figures long—“justifies the effort.” □

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light,
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