

A guide to running a business in the **Architecture** sector.

The Creative Industries Innovation Centre (CIIC) supports the business of creative enterprise. The CIIC is part of the Australian Government's Enterprise Connect program, and is supported by the University of Technology, Sydney.

This Forensic Report summarises the insights drawn from our interactions with this sector. Overall, the CIIC has worked with more than 800 creative enterprises (2009-12).

Talking point

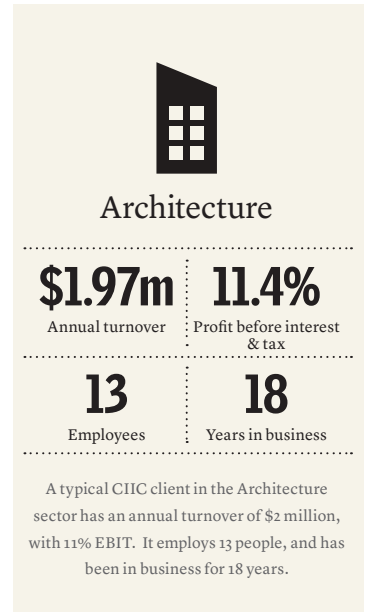
Australian architectural practices are being squeezed. Can a renewed focus on sales, marketing and business development stop profits from being eroded?

Architecture firms ride the wave of recession and recovery. When the global economy slumps, so does demand for their services.

Cyclical challenges are exacerbated by industry fragmentation, a shortage of specialist expertise, over-reliance on a 'signature style', and weaknesses in sales, marketing and business development.

Small-to-medium sized architectural businesses are being sandwiched by lean and digitally literate start-ups and by large, financially stronger, interdisciplinary firms. Building and construction firms are also encroaching on their territory, particularly in project management, squeezing margins further.

Competition is fierce. And as this CIIC Forensic Report reveals, many small firms are running at their limit.



Pressure points

Challenges specifically impacting architecture businesses:

Race to the bottom

Margins are being squeezed from below by a new breed of nimble start-ups with low overheads, and from above by large multi-service operators that can deliver economies of scale. Both compete aggressively on cost.

One-stop shops

Engineering and construction companies are becoming one-stop shops for design, planning, engineering and construction services. GHD Group and AECOM Australia are among the biggest local players offering architectural services, and both started as engineering firms.

Demand is cyclical

Sales are often dependent upon the project experience of too few of the senior staff; or on too few clients – all of which leaves a firm overly susceptible to changes in the economic environment.

Weak business development

Principals are all too often involved in 'doing the business' rather than running it, manifesting as margin erosion, poor cash-flow, staff

over-capacity, high operating costs, and poor project costing systems.

Lack of specialist expertise

Small- and mid-sized firms employ fewer staff than multi-service titans and are less exposed to progressive ideas and emerging skillsets. Insufficient staff development is a persistent issue for smaller businesses.

Too reliant on a signature style

Many firms are over-reliant on a design mantra or signature style, which is a key weakness when styles or client preferences shift, or when the market is tight.

Unpaid work & amendments

With significant amounts of time spent on unpaid design concepts via design tenders or competitions, profitability is squeezed further still – especially as these concepts may never progress into paying projects. Architects rarely bill for all subsequent variations made to original designs, which puts further pressure on workloads and profitability.



Source: ABS 8165, 0 Counts of Australian Businesses, 2011

Steps towards sustainable growth

The CIIC has identified the following steps to help architecture businesses exploit market opportunities and achieve sustainable growth:



+ 2.4% p/a

Over next 5 years

\$7.1billion

2017-2018

The architecture sector is set to strengthen over the next five years in line with the overall Australian economy, driven by improved investment in the commercial building and housing construction markets. IBIS World forecasts growth at an average of 2.4% per annum over the five years from \$6.3bn to reach \$7.1 billion in 2017-2018.

Step 1 Create a sales & marketing plan

A differentiated and compelling sales proposition can reduce fee-based competition, free up time for paid work, and reduce exposure to the prevailing economic environment. Firms with a robust sales strategy are more likely to outpace the waves of recession and recovery that characterise this sector.

Step 2 Find a niche

A niche focus can lead to improved brand and reputation. Opportunities include heritage and conservation work, sustainable buildings, hospitality, aged care, under-serviced geographic locations or areas exposed to the resources boom. Ancillary and technical services such as interior design, surveying and mapping, and urban planning may also present opportunities for growth.

Step 3 Create a network

Replicate the interdisciplinary nature of large firms by creating a network of specialist consultants and subcontractors, perhaps even looking overseas to leverage the skills of emerging economies. In this way, practices can offer a one-stop-shop service but with the leanness of smaller, nimbler players.

Step 4 Look overseas

Demand for architectural services is rising in fast-growing areas of China, Singapore, Vietnam, the Philippines and India. International work

requires an understanding of language and local customs: research regions and opportunities carefully before you leap.

Step 5 Upskill

Increase the abilities of existing staff through mentoring, technical and leadership training. Hire new employees with specialist expertise and business management skills (financial, operational and sales). Firms with an overreliance on senior staff could find themselves gradually out skilled.

Step 6 Demonstrate return on investment

Demonstrate your understanding of the client's objectives by measuring return on investment through a design's fulfillment.

Step 7 Formalise quality assurance

Quality assurance is vital in the heavily regulated construction industry. The site-based nature of the industry is subject to variations in local planning conditions, which necessitates constant skills development and legislative knowledge.

Step 7 Improve financial management

Master job costing and credit controls, understand your cost structures, and track projects from quotation to delivery. Bill clients fully and in a timely manner or in accordance with the contract.

Summary

Architecture principals need to free themselves from the day-to-day running of the business and allocate time and resources to longer-term thinking and action. Improved planning, management, sales and business development can help differentiate a business from companies that compete aggressively on cost. By forming strong connections with specialist

consultants and subcontractors, small- and mid-sized firms can target niche markets, expand into international markets, expand regionally to other states or territories, or compete with larger inter-disciplinary firms. Success depends on knowing what is core to the business and what is expendable, and adapting accordingly through economic cycles.

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