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Starting your own firm is a challenge; structuring it to survive is a formidable task. Architects contemplating starting their own professional practices as well as those who have created their firms recently need to know the practical, professional, ethical, legal, and insurance issues that a new firm faces.

Few architects contemplating creating their own firms have an education or practice experience in the business, legal and insurance issues of practice. Many, in fact, are unsure about considerations such as what constitutes of professional integrity and client satisfaction.

Architects who want to make the transition to running their own firms must recognize and analyze the advantages and disadvantages of independent practice before taking the significant step of starting a firm. They must be able identify the keys to client relations and ethical practice. And they must be able to look beyond the initial establishment of a firm with a sense of what keeps a professional practice viable. With sensitivity, sufficient planning, professional skill and business acumen, the architect starting a firm will be able to pursue personal and professional goals while managing business and professional risks routinely and profitably.

Addressing Initial Concerns

Creating a business takes planning, but *deciding* to create one takes faith. A professional must have faith that the new firm will offer a unique value to the marketplace for professional services. And the professional must have faith both in his or her professional qualifications and business management skills.

Determining When to Start a Firm There is no perfect time to start a firm, but there may be a time when starting a firm is appropriate from a business/professional point of view. The entrepreneurial professional must be self-motivated and disciplined, a responsible leader and organizer, capable of making decisions, healthy, and energetic. Reasons often cited for creating a new firm include the following:

- The ability to realize goals and follow interests
- A desire to balance or integrate personal and professional life
- The need for a direct relationship between effort and reward
- Professional drive for greater control over design
- A goal of working with specific colleagues
- A realization that a firm can be a solid preparation for bad times

Wanting to create a firm is not enough. Writing down a focused business plan that reflects your expectations and including with it a realistic estimate of the first-year revenues and expenses is essential to planning. Formulating an internally consistent

statement of goals and conducting an objective analysis of professional and business strengths and weaknesses provide further guidance.

Funding the Creation and Conduct of a Firm Start-up capital is crucial for any new firm to cover initial expenses and the cost of funding operations until a sufficient cash flow to sustain operations has been established. No two new firms 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. Putting aside at least \$50,000 and establishing a source of contingency funding for future years is realistic.

Organizational expenses to be considered include office space and leasehold improvements, furniture, computer equipment and software, printed materials, marketing materials, and office supplies. Operations expenses will be incurred for such things as salaries, benefits, rent and related occupancy costs, insurance, taxes, travel, copies, internet access and telephone service. A worst-case contingency fund for use in case cash flow disappears is also essential.

Sources for initial capital include personal savings, loans backed by equity in personal real estate; loans from friends and relatives, personal credit cards, governmental loans and commercial bank loans. Banks are reluctant to loan money to new firms since they don't want to be investors. Therefore it is realistic that at least personal assets must cover half of the start-up cost.

Few professionals have an understanding of the underlying issues related to operating a business in a particular profession. The first lesson all must learn is that cash flow is essential to survival.

Understanding Legal Considerations It is necessary to figure out the best way to organize your business to protect your personal assets and how to structure a sound financial system so the business can operate at a minimal effort. Paying for expert legal and accounting advice is usually a good investment. State laws and the impact of registration law requirements vary from state to state, so firms must properly organize to be able to practice and collect professional service fees. New firms must identify the best way to be structured for initial operations and growth. And they must understand the legal and taxation requirements for organizing business and financial records.

Setting Up a Practice

Preserving Ethical Conduct to Former Employers Previous employers can be the undoing of a new firm. Often this is because the employer is unhappy with the way in which a new firm "took" from the old firm. While the taking can involve equipment and supplies, usually the concern is over credit or clients. The founder of a new firm can take credit only for the work that he or she actually did. Be sure to cite a previous

employer on every project on which you participated as an employee. And do not steal clients. You cannot interfere with your former employer's contracts, but you are, of course, free to inform clients that you are planning to start your own practice. Other conditions may apply if you sign a non-compete agreement.

Gaining Access to Clients Facing the decisions necessary to start a firm and establishing the business structure and financial operations are relatively easy. While essential, such steps do not result in success. Fundamentally, firms need clients and for those clients to pay their bills. In many cases the best source of clients is past firms. Former employers are often willing to provide advice and support, including references, and in some cases referrals, if, of course, you left the firm in a professional manner.

Starting the Business Development Process It is important that any new firm understands the concepts of marketing and branding. A new firm must communicate its reputation and value immediately. That means organizing your marketing workflow and keeping all marketing materials updated and ready to use. It also means developing the right kind of network. You can capture attention by knowing who the right contacts are for your business, knowing what is "press-worthy," knowing how to write an effective news release, and understanding media protocol. The more you can get published or be quoted, the greater your value seems to prospective clients. Generating a brand can be helped along with these methods:

- Have an "elevator" speech: be ready to explain your skills and value in the one minute it takes for an elevator to reach the penthouse.
- Be a community presence: get involved in organizations so that others can see your skills.
- Attend events that will put you in touch with your clients rather than with your professional peers.
- Establish relationships with media contacts from the beginning.
- Differentiate yourself and match your strengths to the client's needs.

Operating a New Practice

Meeting Professional Standards and Business Requirements Keep in mind that owning a firm means constant and consistent attention to both the professional and business details of a practice. Creating a rewarding work experience and operating profitably and with stability is only possible if you are skilled at the following:

- Obtaining projects within your skill range
- Negotiating reasonable and fair contracts
- Designing and detailing at an acceptable level of quality
- Producing timely and adequate construction documents
- Working with contractors and installers as a professional
- Maintaining amicable relationships with clients
- Hiring, training and retaining qualified staff

Surviving the time and skill demands of practice is one of the most challenging aspects of starting a firm. The likelihood of survival increases when a new firm establishes practice management systems that are responsive and reasonable. Obviously it is necessary to address issues such as negotiating the scope, time, and compensation for services, the scheduling of design and production, and responding to project delivery variations while all the time emphasizing quality.

Keeping Track of Finances and Other Risks Establishing a financial tracking system is imperative. Set up information so invoicing is simple and payments for services and reimbursables can be easily monitored. Regular invoicing is a must; most firms bill biweekly or monthly. Monitoring payments, which should be due immediately upon receipt, is essential. Keeping communications open with the people who pay is probably the best way to prevent a late payment—or a decision to withhold payment—that can disrupt a new firm’s critical cash flow.

Design skills alone do not keep a business alive. Recognizing the impact of contract law and tort law on daily operations is basic to any professional practice. This means developing effective risk management attitudes and procedures. While a new firm’s biggest risk is that it will not be paid, managing risk includes recognizing professional liability exposures and determining insurance requirements for the business.

Surviving as a Business Entity

Many architects find that surviving the perils of creating their own professional practice does not mean long-term prosperity or professional achievement. Managing a professional practice can be frustrating, time-consuming, and financially draining. It can also be rewarding by allowing an architect to determine the parameters of success, including professional, financial, and emotional accomplishments.

All firms have to meet acceptable standards of professional performance including creativity, timely services, and adequate documentation. But even a firm with exceptional professional qualifications can have its survival threatened. Unfortunately, when a new professional practice is created, there is no “owner’s manual” that discusses the many details of practice and the ever-changing challenges faced in managing a firm. Essentially each firm has to create its specific “owner’s manual” to guide it through the difficulties of running a business based on providing professional services.

There are many legal and business issues faced by every established firm. These topics include the following:

- Legally pursuing new clients and projects
- Maintaining professional integrity and a reputation of value

- Negotiating reasonable professional service agreements
- Billing and collecting fees and reimbursables
- Establishing productive interprofessional and client relationships
- Structuring for growth and eventual ownership transfer
- Facing professional liability, employment liability, and other business risks
- Evaluating financial performance using standard industry measurements.

Few architects are sufficiently educated in the skills set required for running a firm. Those that pick up skills while working in other firms rarely acquire an adequate understanding of the many legal and risk management issues in running a professional practice. No one provides an “owner’s manual” to a practitioner crafting a new firm, but there are sources of information that can help an owner create the body of knowledge necessary to guide the successful conduct of a practice. One of the most valuable sources is the sharing of practice experience by others who have faced the many challenges to the survival of an architecture firm.

Establishing Operational Methodologies Firms operate differently depending on the conditions of their markets. The differences are most prominent in firms that directly provide services, to the ultimate client and those that provide services through interprofessional arrangements. Most firms do not want to be “lower tier” providers of services where they are separated from decision makers and from direct payment for services. Some, however, see the interprofessional relationship as shielding them from the many problems of working directly with clients and from disputes and claims.

Regardless of the client base, all firms must emphasize quality. Services must be consistent with client expectations—whether the client or another professional or construction firm is the ultimate user—and professional values. Quality produces a reputation that is essential for competitiveness. While the implementation, review, and control of quality may be delegated throughout a firm, it is both the right and responsibility of the firm owner to establish the level that must be achieved. An emphasis on an appropriate level of quality must be applied in design, in documentation, in construction, and in service.

Legal Considerations in Running a Firm A professional practice is a business and its owners must understand the legal ramifications of running a business. It makes sense for a firm to seek professional advice on any action that involves setting up an organizational structure or modifying the legal basis of the practice. Assistance is necessary on legal options and the firm’s decision-making structure, on the initial contributions of capital and methods for the distribution of profits and losses, and on any changes in ownership such as a departure of an owner or a modification of the firm’s structure because of retirement, death, disability, or a decision to dissolve the firm.

Marketing and Management Issues It is up to the firm's ownership to provide leadership in both management and marketing. Owners provide the inspiration, direction, and motivation for the firm and organize individuals and groups effectively to pursue the vision that guides the firm. A professional practice must be managed so that it produces a profit. The profit must be sufficient to ensure firm continuity and provide a return to its owners at whatever level they deem appropriate for their effort and risk, and that they are capable of producing. In most markets, prospective clients buy from owners, who are responsible for fulfilling client expectations regarding the execution of projects. Satisfied clients generate future revenues.

Billing and Collecting Fees and Reimbursables Capital needs and sources are important for the creation of a firm. Owners must understand issues of cash flow and cash projections. Capital is necessary for growth that cannot be funded from profitable operations. Capital is vital to support the increasing need for more sophisticated technology. Additional capital needs are frequently met with bank loans in the form of lines of credit. For these and for other loans such as in the financing of equipment, owners usually assume the responsibility and risk on a personal as well as business basis.

The core of financial management is knowing costs, revenues, and their proper balance. While the easiest way to increase the profit margin is to reduce overhead—and low overhead can be a competitive advantage—a firm without a clear understanding of its overhead factors may cut overhead in a way that jeopardizes the future of the firm. But while knowing the financial ratios by which a firm can analyze and control its operations is vital, it is critical to understand the cash cycle.

Firms that understand the need for cash find ways of making sure it flows properly. Most successful firms operate on somebody else's money. They immediately get a retainer that is usually applied to final payment. Providing services is a business arrangement—getting money up front is a prudent business practice. Firms that extend credit rather than receive cash for services endanger their operations. Many firms invoice monthly with payment due within 10 days of receipt. Others bill even more often. Most make it clear that payment is due when specified services are rendered. Because a firm is selling its professional expertise, they suspend services if payment is not received.

Often, as their only bargaining chip, firms hold their instruments of service or their responsiveness to required statements or certifications. Some personalize the payment process by demanding payment in person whenever a meeting is scheduled. While every firm faces situations where it may "write off" part of a fee, some have not simply allowed a client to breach its agreement to pay. In some cases, firms have gone as far as issuing a 1099 to a client for unpaid fees forcing the client to pay taxes on the amount of the earned but unpaid fee for the consultant's services.

There are many ways to set up billing and collection systems, and there is sufficient advice on how to use communications or the control of services to pursue payment.

Even simple accounting systems can include reminders to contact delinquent clients, but often, personal contact and intervention by the owner is required. Every firm should have in its “owner’s manual” procedures to make sure the cash keeps flowing.

Contract Negotiation Good contracts and careful negotiation are important to reduce vulnerability. Contracts are guides to the management of services. They include clear provisions addressing scope, compensation and risk. In negotiating contracts, architects manage their exposures and establish the financial success of their own practices. Although there can be significant differences in both the content of contracts and the negotiation techniques used in developing agreements with clients and other design professionals, all have to be carefully crafted and consistently used to direct performance. As firm owners become more experienced, they increase their ability to identify the value of appropriate contract language on professional satisfaction and prosperity.

Managing Risks and Profitability

When a new firm is created, its creator decides to take on the risks of a new venture. Risks do not disappear when a firm has survived its initial period. Often the need to address a firm’s exposure to loss intensifies. Managing risks leads to the management of profitability. Avoiding risks can mean avoiding the opportunity for success but ignoring risks can mean financial failure.

Risk taking moves the firm forward. Firms need to explore new opportunities—new clients, new project types, new technologies—that may expose the firm and its owners to risks that are discomfoting. The continuation of a firm involves a specific “risk attitude” that should be based on the owner’s understanding of the many exposures a professional practice faces. Capitalizing on opportunities require making choices and those choices have attendant risks.

Survival also depends on preventing or resolving disputes. All firms have them eventually. They can range from a claim from a dissatisfied client or an injured project user to allegations by disgruntled employees. Facing the realities of professional liability, employment liability, and other professional and business risks takes knowledge and commitment. Too often firms fail after a successful start because they did not identify, evaluate, and manage their exposures. As a firm develops, insurance coverage becomes vital to protecting the investment in the firm and the personal assets of its owners. Working with an experienced independent insurance broker who understands the needs of a professional practice is a prudent way of addressing many of the risks to a continuing practice.

A new firm is exciting, exhausting, and exacting. Architects who want to run their own professional practices must not only have the ability to design but also the ability to manage business and personal challenges.



Creating and Maintaining a Successful Practice

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In an ever-changing competitive environment no professional service firm can ever claim final success. Owning a professional practice is a journey—the business form is the vehicle. And the architect must map out a preferred future, tune up business and professional skills, and not be afraid to ask for directions when the original path encounters the road blocks of the realities of practice.

For more information go to
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