

## **The New Norm, Part Two: Finances**

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Recommendations and mandates to fight the Covid-19 pandemic impacted architectural practices immediately. The most notable and obvious change, working remotely or, as it has become known, WFH - working from home. Social distancing, sequestering, and the availability and use of new technologies like Zoom and Microsoft Teams have altered the way firms work, especially on projects already underway. Presentations, visualizations, collaborations, meetings - everything had to be done at home, apart, efficiently and effectively. And for the most part, the change has worked.

These operational changes have financial consequences. They do and will continue to affect the way firms manage, pay and charge for the work they do for their clients, during the pandemic and afterwards. What will be different is the labor cost of working remotely, the time spent by those doing the work and the time spent supervising them. I believe that architects need to consider three particular financial areas: **Direct (Project) Costs**, **Indirect (Overhead) Costs**, and the **Fees** they will charge to cover the costs and yield a profit.

### **Direct (Project) Expense**

Projects fall within a wide range of markets, types, geographies, sizes, complexities, qualities and costs. The work itself ranges from the simplest, least complex job done by a single individual in a brief time to large teams representing many disciplines, skill sets, and degrees of experience over a long period of time. Managing projects involves planning, monitoring and control. Often the work is described in terms of the disciplines applied, the most common being management, design, documentation, and construction administration. Most firms use various titles for those who perform those tasks - project managers, project designers, project architects, sometimes simply architects.

If the projects are the same and the work required to complete them is the same and the project teams are put together in the same way, exactly what will be different? It is **where** the work is done and **how much time** it takes to do and supervise the work.

Here are some questions to consider regarding the financial impact of working remotely:

- Will virtual in-progress reviews or working with consultants be accomplished as efficiently or effectively as face-to-face meetings?
- Will the reduction in travel costs to meet with consultants offset the potential reduction in the effectiveness of face-to-face meetings?
- How will efficiency, effectiveness and quality be evaluated?
- Will working remotely provide more or less opportunity to effectively assign employees with different kinds and levels of experience?
- Will the completion of parts or all of an assignment be considered as a function of time or what has been produced?
- What about collaboration, communication and contribution to team effectiveness?
- Will any of those evaluations have metrics, i.e., quantifiable measures used to assess success or failure? Are metrics important in these matters?

Working remotely will affect the cost of delivering projects to clients. There are no *right* answers but there will be answers that are right for you. Your responses will, of course, depend on your firm's size, organizational structure, people, financial structure and culture. For example, if your firm focuses on assigning discrete project pieces to achieve project profitability, then you will need to be especially clear about those assignments, because *management by walking around* will be less effective. Conversely, if your firm focuses on the amount of time project staff spend on the work they are doing, you must think about if and how you will manage employees' time when they work remotely. Also, if your personnel have been expected to work a specific number of hours per week, perhaps 37 ½ or 40, and have been accustomed for those hours to be spent within certain starting and ending times, it will help you to know that others have already found that hours spent working remotely are not always within normal start-stop bounds, and may extend into the evening.

If one or two people have responsibility for conceptual design, there may not be a significant difference in the cost of achieving the level of completeness and quality that is customary for you. However, if your project process has included free-wheeling discussion and sketching involving

several participants, then working remotely may be more time consuming and costly, as well as less satisfactory for that aspect of the work.

If viewing construction progress by making frequent site visits can be offset, and possibly improved, via remote, recorded walk-throughs, then working remotely may be more cost effective than conventional methods.

When the firm expands, hiring consultants/contract staff could provide some flexibility and reduce personnel cost, albeit with less ability to develop, train and inculcate the firm's culture.

### **Indirect (Overhead) Expense**

Overhead costs will change, in at least three areas: the cost of acquiring new space or of adding or reconfiguring current office space; the non-salary payroll cost of personnel; and technology costs: hardware, software, and the training to use them effectively.

After returning to more normal practice, firms that find that they do not require as much space as before because more staff are working remotely may try to renegotiate current leases or seek smaller spaces, both of which will reduce rental costs. Or, they may choose to provide "benching" or "hoteling" spaces that staff can use temporarily when they do work in the office, which may result in a change in capital or operating costs. On the other hand, with many people working remotely, firms may find that they need more space for live conferences in the office, which could result in increased cost, to which must be added new capital and/or operating costs to improve or replace mechanical systems to achieve increased health and environmental protection.

Will low-end tasks drift upward to higher-level, higher-paid staff and will that drift reduce or increase costs? What once was common, to have a 4:1 ratio of professionals to administrative staff, grew to 5:1 and appears to be increasing.

Architects who consider using contract labor instead of payroll employees, either by replacement or addition, will likely reduce costs. Considering comparable base salaries, the cost of normal payroll

benefits for vacations, holidays, sick and personal time, and for education, professional activities, and professional development will likely be reduced. (Not a financial consideration but important nonetheless is loyalty to and from employees, the professional responsibility to foster their professional development, and the need to have staff with the capabilities and attributes deemed necessary to advance into leadership roles and responsibilities.)

Costs will rise to improve and expand the benefits of technology—computer hardware, software and the staff training necessary to maximize their effectiveness. The average annual cost for computer hardware and software has hovered at \$5,000 per person, which is likely to increase as technology becomes more sophisticated, more useful, and more widespread.

### **Fees**

Architects establish fees in many ways including stipulated sum (fixed fee), percentage of construction cost, cost-based compensation, professional fee plus expenses (cost plus fixed fee), hourly or daily billing rates, cost per unit, and combined methods.

It is very important to note that none of the aforementioned methods of establishing compensation includes the word *value* nor are they understood to be *value-based*, which refers to the special benefit to the client provided by the architect. That said, any one of the traditional methods can become *value-based* by increasing the sum or multiple to produce a fee that exceeds normal market ranges. Recent examples include higher than normal fees for high-end residences that yield higher than normal profits, fee premiums calibrated to rental yields on commercial properties, and large sums paid to recognized stars, in addition to the fees paid to their firms to do the work.

Can the changes in practice, in and of themselves, be deemed to be creating added value to clients? How can the services architects provide be explained and presented in a way that communicates value added?

When computerization of drawings first became available, it was considered by some as benefitting clients therefore deserving higher fees. Computerization advanced rapidly and became

commonplace, resulting in the need to compete within the normal range of fees. In some sectors of the larger economy, fees can be increased as costs increase, but only if a large percentage of the providers operate similarly. Monopolization has that effect, but monopolization is not possible in building design and construction, because of the great number and wide diversity of service providers in the market.

Should savings in the cost of providing services add to profits, or should they be passed through to clients, as happened before? Will increases in the overall cost of doing business be reflected in fee increases? Should it?

Look carefully at what you have done for your clients. Learn to see yourself differently from others. In developing client relationships, express the differences between yourself and what you provide from others and what they provide. Seek ways to relate project fees, or parts of fees, to quantitative benefits realized by your clients.

The way firms will be affected by the ramifications of what has changed will differ from firm to firm, governed by the firms' circumstances, objectives, and the strategic decisions they make to realize them.