

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 Entrepreneurs' Infrastructure Programme, 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 1,500 creative enterprises (2009-2014).

Talking point

Australian architectural practices are being squeezed. Can an understanding of future trends help them defend their margins?

When the global economy slumps, so does demand for architectural services. Many architectural firms have only just begun to feel the pinch, protected by government stimulus packages in the wake of the Global Financial Crisis.

Small- to medium-sized architectural businesses continue to be sandwiched by lean and digitally literate start-ups and by large, financially stronger, interdisciplinary firms, squeezing margins from both sides.

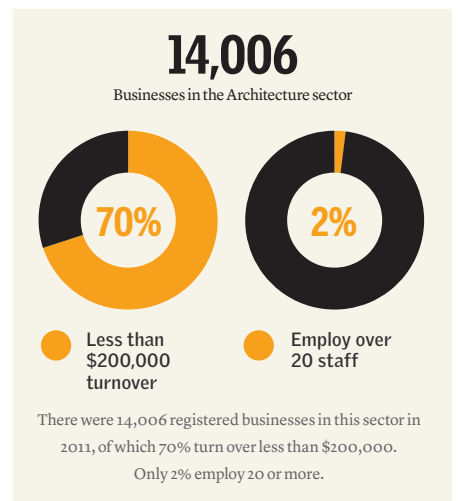
Architectural services are further being commoditised as building and construction firms encroach in areas such as project management.

To stop profits from being eroded, many architects are looking to expand overseas or specialise in niche areas.

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

Despite these challenges, a small percentage of

the built environment in Australia is architecturally designed. This presents a huge opportunity for architects who can demonstrate the value of their services.



Pressure points

Challenges specifically impacting architecture businesses:

Race to the bottom

Margins are being squeezed from below by a new breed of start-ups with low overheads, and from above by large multi-service one-stop-shops, such as engineering and construction firms. Both compete aggressively on cost.

Weak business development

Principals are all too often involved in 'doing the business' rather than running it, manifesting as margin erosion, poor cash-flow, and a weak sales and marketing strategy, all of which leaves firms overly susceptible to changes in the economic environment.

Offshoring

Architects are losing a growing proportion of work – such as documentation and contract administration – to more affordable offshore markets.

Technological change

Administrative, documentation and contract tasks that were once performed manually by architects can now be performed by new technologies – a trend that is likely to proliferate

in future. Architects must find new revenue streams to plug the gap.

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.



Steps towards sustainable growth

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



Step 1 Understand the future

The future will not look anything like it does today, yet many firms are behaving as though it will. Look at where the market is headed to better understand how your firm will fit into this brave new world. You will have to take some punts: if you replicate what's already out there, you will be forced to compete on price.

Step 2 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 3 Find a niche & look for synergies

Niches include heritage and conservation work, sustainable buildings, hospitality, aged care and areas exposed to the resources boom. Interior design, surveying and mapping, and urban planning may also present opportunities for growth. Look for synergies when considering niches: aged care and hospitality fit nicely together. But beware the goose with the golden egg. Competition in the aged care sector is already fierce, so think carefully before you join the fray.

Step 4 Create a network & upskill

Replicate the interdisciplinary nature of large firms by creating a network of specialist consultants and subcontractors, perhaps even

partnering with firms overseas to leverage the skills of emerging economies. Increase the abilities of existing staff through mentoring, technical and leadership training. Firms with an overreliance on senior staff could find themselves gradually out skilled.

Step 5 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, strong local connections and a local presence or affiliate office. Research regions and opportunities carefully before you leap.

Step 6 Demonstrate return on investment

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

This Forensic Report reflects the CIIC's work with over 1,500 creative enterprises in Australia. To register for a free Biztro session or an Entrepreneurs' Infrastructure Programme Business Evaluation, visit www.creativeinnovation.net.au

Architecture principals need to free themselves from the day-to-day running of the business and allocate time and resources to longer-term thinking, trend forecasting and action.

Many architects understand their direct competitors, but not their indirect competitors such as builders, draftsmen and construction firms. It is important to understand the total competitive landscape to better differentiate your 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 interdisciplinary firms.

Success depends on knowing what is core to the business and what is expendable, and adapting accordingly through economic cycles.