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INCREASING MARGINS

Merger or Acquisition: Which One Is Best in Lean Times? Part 2

Ownership transition is by far the number-one reason why firms are still thinking about selling, according to Brad Wilson, mergers and acquisitions consultant for PSMJ Resources. This has not changed because of the current economy. However, several other factors are involved in the decision to sell a firm as opposed to having internal successors take over the reins. Potential internal successors may not want to assume the risk associated with ownership, they may not be good leaders, or they may not be financially able to buy into the firm for a number of reasons. The firm may have underperforming departments or branch offices, and if so, it will not be highly valued or able to retain good people. So why would it consider selling?

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EXERCISING LEADERSHIP

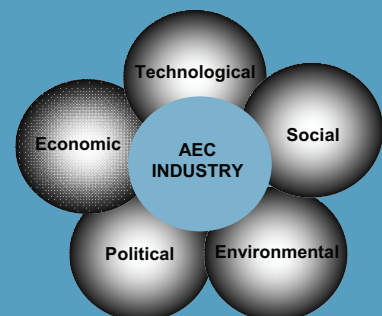
Hickok Cole Architects Test Collaborative Design Solutions Against Clients' Goals

Most forms of art— theater, film, dance, music, and architecture—are inherently collaborative. Without exception, all involve the participation of more than one individual. Other forms of art—such as literature, painting, sculpture, and musical composition—are generally the work of one individual. Collaboration in architecture is coming more to the forefront with integrated design process, yet models of collaboration are not replacing individual creativity any more than digital electronic communication is replacing print. Creative models of design collaboration retain the individuals' characteristics we admire, yet produce an enhanced aesthetic. Such a form of creative collaborative design process exists at Hickok Cole Architects, in Washington, D.C.

"We didn't invent the collaborative design process," claims Mike

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(Source: Steven J. Isaacs)

Is It Tomorrow Already? Megatrends Affecting A/E/C Firms

Firm leaders are looking today for ways to ride the waves of this economy into the future. To do so, firm leaders should look at future trends and evaluate them to make strategic decisions, plan responses, and identify actions they can take to leverage the future benefit to their firms.

Steve Isaacs, Associate AIA, PE, managing director of the Advanced Management Institute for Architecture and Engineering (AMI), presented the results of research conducted by AMI and FMI Corp. of 60 nationwide design firm leaders, at the American Institute of Architects' national convention. Isaacs said that we must start looking at the future and act now, and use hockey great Wayne Gretzky's strategy of "skating to where the puck will be."

Isaacs wants to know what it will be like coming out on the other side of this recession and identified five major trends: social, technological, economic, political, and environmental—and their effects on the A/E/C industry. These five megatrends overlap and affect each other.

1. Social trends. The world population is aging and on the move as the baby boomers reach retirement age. This market will demand retirement communities, health care facilities, and extended care with accessibility and safety. An older population,

one-sixth of them living in inappropriate housing, will be a major infrastructure market for billions of people.

Urbanization will reach 60 percent of world population by 2030. There are 1.3 million people every week arriving in the cities of the world. "Urbanization means billions will need clean water, housing, workspaces, schools, and transportation systems," Isaacs said.

Sustainability will likely be a key value of the people in the middle class, which is growing rapidly in developing countries. They have increasing expectations of enhanced lifestyles; however, they will see that sustainability will give way to the "environmentally beneficial."

The labor shortage will be ongoing, and there will be a brain drain out of the United States, as American graduates will be lured overseas. A more mobile workforce will need new processes and skills to support the distributed work. "We expect widespread use of industry standards: building practices, automation, monitoring, and communication technologies. These technologies will require new skills and strategic abilities for problem solving," Isaacs noted.

2. Technological trends. There will be major breakthroughs in artificial intelligence,

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such as bio- and nano-technologies, which will affect everything in building design and construction. "Imagine a house growing on a site from seeds," Isaacs said.

Mobile technology now offers instant access to all information so knowledge-management skills will be the key to handling the growing avalanche of information. Technology will drive the melding of design and construction where everything will be integrated. There will be high competition for a technically trained workforce and increased automation and coordination of the design and construction processes.

"The A/E/C industry will become more consolidated, global, and collaborative. Worldwide standards and automation increase commoditization as design technologies flatten the industry. Firms will differentiate themselves more on 'human' abilities: problem solving, creativity, innovative ability, and aesthetics—attributes that computers are not yet able to replicate," Isaacs pointed out.

New design technologies will lead to new roles in designing and managing building information, and clients will be the driving force and participate actively.

3. Economic trends. The economic future remains cyclical, but economists seek ways to reduce the amplitude of the cycles. Megacorporations will fund and own public projects and infrastructure and behave more like city-states, and governments will behave more like corporations, "but don't expect to see any less bureaucracy," Isaacs added.

Emerging "megaeconomies" such as China and India will flex their economic muscles and could drain talent away from the United States.

"Energy needs will be crucial to the world economy, and the United States

must replace or upgrade its crumbling infrastructure," he added. "The worldwide middle class will want U.S.-quality energy upgrades, but aligned with local values and traditions. This will result in increased opportunities for A/E/C firms to partner with local communities and instead of giving up what we do, go beyond," advises Isaacs.

The industry continues to consolidate as ownership of U.S. A/E/C firms is more disseminated, with increased numbers of publicly held companies and increased ownership by private, nonparticipating owners, who mostly supply venture capital.

4. Political trends. "There will be a worldwide scramble to secure resources in energy, water, and brainpower, with an increased international pressure to use these resources sustainably," Isaacs said.

Countries in conflict will become economic pariahs; however, recovering countries are going to have economic opportunities, with an emphasis on energy efficiency and less waste in design and construction.

5. Environmental trends. A shortage of natural resources will affect the distribution of people, health of local economies, and political stability around the world. To offset this, there will be increased universal public pressure for stewardship and restoration of the natural environment. There will be increased investment in alternative energy sources as the magnitude of global climate change becomes clearer with time. Solar power and green roofs will become the norm. The increase in green construction and innovation should not be a surprise, if the current groundswell in the industry is any predictor.

Green construction will result in more stringent building standards and zoning regulations that strengthen sustainability of the environment. Also, detection, surveil-

lance, and protection technology will be built into all new infrastructure projects in this post-9/11 world. "The need for better risk-assessment techniques for multihazard assessments and mitigation will be a key competitive differentiator among firms," Isaacs said.

Research and development will come from nontraditional A/E/C firms. "Ideas will come from anywhere, and the result will be the confluence of ideas from different directions," claims Isaacs.

A/E/C industry changes. The continued global consolidation in the A/E/C industry will bring about a worldwide dispersal of clients, projects, offices, and staff. There will be a merging of construction- and project-management roles, resulting in integrated services from a single source and a proliferation of new project-delivery methods. We're going to see new, sophisticated design and analysis skills, including a high demand for green firms and staff.

Procurement methods will favor very large and very small firms, for either mega- or microprojects, as many midsize firms are squeezed out of the market, except those

with strong creative approaches. When services are fully integrated, there will be more single-source service providers; however, efficiency, innovation and research will be required to remain competitive.

"The role of the architect or engineer should shift to one of facilitator, researcher, and designer and have the production of working drawings move to the construction sector," Isaacs said. "Firms that only design will disappear."

Strategic design leadership is required as firm leaders analyze these megatrends, understand and evaluate them, and then act on them. The first step is to build future scenarios for the firm's markets and then scenarios for the firm, with planning coming not only from the top level but also from the operational level. These scenarios can then be used to make significant strategic decisions that will reinvent the firm; then follow through on the execution of those strategies. These steps will revitalize a firm and prepare it for tomorrow.

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Upside to a Down Economy: An Interpretation

The Society for Marketing Professional Services conducted a think tank session of industry leaders, who gave their views on the opportunities for innovation that firms should look for coming out of this down economy, a part of which was published in the May 2009 issue of *Principal's Report*. A major theme throughout the session was that a recession is a terrible thing to waste. Peter Ashton Lyon, FSMPS, associate and business development manager—South-east for Flad Architects, presented his view

of the findings in a presentation to the SMPS Florida regional conference. The presentation included comments from some of the think tank speakers.

Is there an upside to a down market? We are in a period of extraordinary change, from environmental change affecting the way we look at our world to technological change and how we will do business. A down market creates opportunities for planning, strategy, formulation, and innovation. The

challenge is to adjust and prepare for this change.

M.J. Beebe, chief learning officer (retired), CB Richard Ellis, and principal, Beebe Interests, observed, "We're going through a new reality, such as our differentiator just can't be that our brand is out there daily. You now have to change your behavior to face this new reality going forward. Fear is rampant today and is the great motivator. Let's figure out the new reality and differentiate ourselves by being part of that creative process as opposed to propagating what's already going on."

Arthur Gensler Jr., FAIA, FIIDA, RIBA, chairman, Gensler, commented, "You are what you think you are, so think positively. I see opportunities that are enormously challenging and fun. Let's go out there and just do it."

How do you survive and grow your business in this market? Do what it takes to hold on to your most talented people, and if your firm has the financial strength, keep an eye out for highly skilled new talent. In addition:

- Keep to your core talents, or rather, do not rush to diversify into markets you have not served previously;
- Work closely with your clients to understand their operations and determine what can be done to serve them better;
- Retune your strategic focus to provide add-on services to meet the needs of existing clients;
- Look for opportunities to collaborate with teaming partners to increase your strength as well as better serve the client. This includes possible teaming arrangements with your traditional competition; and
- Embrace different project delivery methods.

Bradford Perkins, FAIA, MRAIC, AICP, chairman, Perkins Eastman, observed, "A lot of the younger leaders have never been through bad times. This is a very good lesson and will determine who can and can't handle it. This situation also reaffirms that we know we should continue to market in bad times, even though we've been busy for the last several years. It's also important to become more competitive on a global scale. Right now, there are a lot of very good people available, and if you can afford them, you can build up the firm for the future."

A down market is a great time to provide performance training. This is a great opportunity to train your valued staff in client management—how to function, think, and react to client desires. This is also a great opportunity to really connect with your clients, to find out what it takes for them to make a profit and to understand their issues in this economy.

Alfred K. Potter, senior vice president sales and marketing, Gilbane Building Company, commented, "We can grow even when the markets do not, if we've got smart thinking that values imagination over rationalization. The way to grow your market share is by offering a value proposition in your pricing. Even though we feel we worked hard to meet our clients' needs in the past, a recession demands firms to be even more client-focused. It is so important to make better go/no-go decisions and it

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will become even more important in the future. We don't have the luxury of a three-months-out prospect list anymore. So we have to pick the clients we pursue that match our strategic methodology, yet not be the low-cost provider. We need more discipline up front to walk away from opportunities that only yield the low-hanging fruit."

James P. Cramer, Hon. AIA, publisher, Design-Intelligence, advised, "Think about how you can be better and faster. We have the technical tools now to be both, especially with half a million design professionals now using BIM technology. Think of valuable services that you

can offer that will bring both wider and deeper opportunities for growing when the market is not. Investigate strategic alliances and mergers and acquisitions that are not motivated by fear as much as by opportunity. Providing the financing for projects is another trend that we are seeing, and by doing that, you become part of the economic solution. The design professional should be right in the middle of the economic lens."

Lauren McCracken, AIA, FSMPS, CMO, Jacobs Global Buildings NA, added, "I see a lot of teaming out there. The financiers, the builders, the developers, and the architects all realize that four people marketing are better than just one, particularly on the public-private partnership side. The United States is still the safest place in the world to put private capital. So if you can identify the project and bring the financing, then you don't have to compete for the project. It's a lot better than looking for RFPs. Pursue fewer projects, and do it better and win the ones you want, and don't worry about the rest."

Diane Creel, FSMPS, chairwoman, president and CEO (retired) of Ecova-

tion, suggested, "Ask your clients, 'How are your facilities meeting your production requirements today, and how must they change to meet the future?' Then ask, 'Can we work with you to understand your process and develop new solutions to improve your production performance?' What that involves is a whole lot of listening and not a lot of talking, and if the client is willing to share their business plan with you, then you can become partners. We can innovate our systems within our firms, and it won't save us in a down market; the only thing that will is the innovativeness by which we develop and maintain the relationship with our clients."

The real upside of a down market is what we do with it. Firms are working harder to deliver what the client expects to be delivered and providing better communication with their clients to ensure successful partnering arrangements with them. In addition, they are:

- Offering different pricing scenarios that are not necessarily cheaper but in line with their client's economic and business goals;
- Developing in-house leadership training sessions to instruct staff members on the firm's core values and how to deliver those values to clients;
- Bringing clients to the office for special presentations on new technologies, materials, and construction delivery models; and
- Evaluating projects by sticking to a formal go/no-go process, based on the firm's core values.

Joseph M. Powell, executive director, Rice Building Institute, advised, "The bulk of new ideas rise in the face of adversity, and we should expect significant changes in our industry. We are back to basic discovery these days, so we have to

The bulk of new ideas rises in the face of adversity, and we should expect significant changes in our industry.

get over the negativity and start creating the new reality. We're talking too much to each other—'What are we going to do, where are we going, what are we going to innovate?' We don't know. Spend less time strategizing among yourselves, and get out

and meet with your clients. That's where the innovation is going to come from. Spend more time with large repetitive buyers, asking them the following question: 'Where does it hurt?' They are the ones that have the answer."

Is Social Media Networking for A/E Firms?

Today industry leaders are trying out new e-marketing and social networking strategies, with varying degrees of success. The mayor of a midsize Connecticut city is using these strategies to keep in touch with constituents and created an online system to work with the city's vendors. A director of public relations for a metropolitan area park is using blogs to further its mission and reach its audience. "With social media comes the end of the press release," according to David Koren, CPSM, Associate AIA, associate principal and director of marketing for Perkins Eastman (D.Koren@Perkinseastman.com).

"Everyone's a channel. We're all channeled and anybody can subscribe to us," Koren said. Perkins Eastman; Hellmuth, Obata & Kassabaum (HOK); Wimberly Allison Tong & Goo; and many other large firms are all experimenting with this new form of connectivity. "What has a firm's branding become when we are all broadcasters and everything we put out there is essentially archived forever on the Internet?" Koren asked. "So your brand really becomes whatever comes up when people type your name into Google—that's who you really are," he added.

Not everyone is on the same page, however, as some firms feel that social media tools are more for an individual's brand, just as blogging is an individual voice. It really depends on the culture of the firm.

HOK, for example, tapped people in their firm to head up their blog, and in a sense, they become reporters for the firm. The whole concept of journalism is changing.

Mike Conway of Lobkovich Kitchen Design (www.lobkovich.com) just started using the more popular LinkedIn and found he could build connections faster than other forms of referrals. Conway's clients are architects, interior designers, custom home builders, and high-end real estate agents and brokers. Many of his contacts are beginning to embrace social media for their business development. Conway is surprised at the unexpected connections that result and uses them as a means of introduction to others. He plans to stick to LinkedIn rather than go with Facebook and Twitter, which he feels are more for social contacts and less appropriate for business use by professionals.

Not everyone agrees. Su Butcher (www.twitter.com/SuButcher), practice manager of Barefoot & Giles Architects in the United Kingdom and founder of the Architect's Twitter League, feels that any form of marketing should begin with your target clients and where their markets are. As a result of her firm's social networking, it has:

- Recruited staff;
- Given presentations to industry experts that generated new leads;
- Referred business to other architects

and construction consultants; and

- Obtained introductions to large clients.

Raise your profile. The first objective, according to Butcher, is to get noticed. Within a month of actively tweeting, one of Butcher's news items about the firm's GreenGauge Homes was published online in a major construction journal, doubling traffic to its Web site. With Twitter, everything you write is on a huge database of content, which makes your work very visible.

Connecting. Why does Twitter work? Butcher feels that it's because it connects people to people. Networking is something many architects and engineers find difficult to do. Twitter helps because it allows you to maintain relationships with people that you can develop in more depth elsewhere, online or offline.

Keep it simple. There is so much chatter out there that it can eat up your time and ruin your productivity. Here are a few tips to combat this problem:

1. Use simple tools to make the most of social media;
2. Focus on sending out only high-impact messages;
3. Let go of the need to read everything;
4. Determine which social media give you the most value, and simplify the application;
5. Form close relationships with people who give you the most value, not everyone; and
6. Be selective and manage your time wisely.

Social media vehicles can be used to communicate with stakeholders. According to a Burson-Marsteller-PR Week CEO survey of firms that use social media vehicles to communicate with stakeholders,

Facebook is the most popular. The rankings are:

Facebook	78%
YouTube	48
MySpace	44
Twitter	19
Flickr	17

Effectiveness of social media as a corporate communications tool.

Extremely effective	9%
Very effective	20
Somewhat effective	43
Not very effective	24
Not at all effective	5

CEOs believe that social media can have an impact on a company's overall reputation (62 percent) and PR issues (61 percent), compared to the impact on sales of the company's products or services (48 percent).

A/E/C firm marketers are well-versed in using social media. Judging from the responses to poll questions in the *SMPS Connections*, an online publication of the Society for Marketing Professional Services, it is obvious that members are interested in using social media:

- Fifty-five percent of respondents indicated that LinkedIn is their favorite tool for business;
- Fifty-nine percent are spending one to five hours per week on social media; but
- Thirty percent indicated they are not using social media.

Responses to how social media are being used varied greatly. The list below includes comments on how SMPS members are using social media to promote their A/E/C firms.

- "Create firm profiles and make connections; also advertise events and awards."
- "Having clients and prospects as friends."

- "Using Twitter, LinkedIn, and blogging to show off our leaders as industry experts and to extend our marketing."

- "Using Facebook fan pages to create community, LinkedIn for employees and others to connect, Twitter to post current news and upcoming events, and YouTube to host recruiting videos and company messages."

- "LinkedIn allows me to prospect clients by market, connect to those prospects, establish credibility, and promote my firm."

- "Creates a back channel to connect with decisionmakers and seek introductions from other professionals."

- "With limited ability to attend networking events, Facebook, LinkedIn, and Twitter have helped me keep in contact with my peers and clients."

- "Creates a way of posting significant company announcements and news."

- "Our marketing department started a group six months ago with the Design and Construction Network on LinkedIn, and now it has 500-plus members."

You may be forced as a seller into "fixing up" your own firm, which is better than selling your firm and later asking the buyer to do it for you. It's best for you to make your firm as marketable as possible. "Secure good next-generation project managers, and turn them loose in the marketplace. Document your intangible value—what is good about your firm that will let you rebound strongly with the economy. This intangible value is what you can offer a larger firm that can in turn offer it to their own clients. If you can show consistent financial results, it will communicate the intangible value of how you manage your firm on a proactive basis," claims Wilson.

The unmarketable alternative. Wilson points out what does not work. "Stop all discretionary spending (including business development). Convert your backlog to work in progress, convert that work to accounts receivable, and convert that to cash. Use some of that cash to keep your people going throughout the process. This is a tremendous loss of equity; there may be some value remaining that can be brought out with a potential buyer, but it must first be identified and communicated," warned Wilson.

Expectations about price. Buyers and sellers are rarely in sync with each other. When economic times were good, there weren't as many doubts about the claims that firms made about their valuation. "The old rules do not apply anymore. Evaluations by formulas are virtually useless in today's economy, as past performance can't be projected into the future. Historical performance doesn't equate anymore, so how do we close this gap," asks Wilson. "Valuation and negotiation go hand in hand. Firms need to sit down and talk it through and determine what motivates each party, and then work it out," he added.

Increasing Margins

CONTINUED FROM PAGE 1

"One of the reasons why firms are considering selling is that they didn't get the right people on the bus at the right time, so now they are forced to sell," said Wilson. However, there are firms out there that are selling based on strategic decisions. These include offering employees greater opportunities and taking the firm to the next level by getting bigger and better projects or shifting to international work and thus keeping the staff enthusiastic. Then there are economic circumstances and market conditions, which are starting to get more reactive. Other concerns are whether the firm is "unmarketable" and its value is too low.

But how do you explain this to someone who is thinking of buying or selling a firm? "You try to reduce the number of components of the valuation to two issues: cash and risk," Wilson explained. "The cash flow is less than it was a few years ago in most firms, but that's black and white. It's on the financial statements, it's in the bank account—you can pretty much figure out how much cash a firm generates using industry standard classifications," he added.

The other side of the equation is much more challenging: the risk associated with that cash flow. "What are the chances that the cash flow received today is going to be substantially less tomorrow and the next day and the next year? The crystal ball is much cloudier since 2008. The risk is much more than firms would otherwise like to deal with in a merger-and-acquisition scenario. It's not killing off deals, but it means that firms have to engage in more risk management inside those deals. It's making firms much more diligent in investigating exactly what they have for sale or what they believe they are going to get if they make an acquisition," Wilson observed.

Factors affecting the values of shares.

Internal factors

- Earnings record and consistency of earnings;
- Consistency of earnings growth and cash flow;
- Consistency of cash flow;
- Revenue growth and balance sheet; and
- Identity of the firm versus founder.

"Do clients call for individuals or for the firm? If it is the individual and he or she is anticipating retirement and there's not

a good leadership left behind, the lack of firm identity independent of the individual (example: founder) is a major depressor on the value. Consistency is risk management in this scenario. If you can present a consistent picture of cash flow and earnings, that lessens the amount of risk and increases the amount of value. Growth is also an enhancement to value," Wilson said.

External factors

- Desirability of industry category;
- Desirability of geographic locations;
- Reputation within the industry category;
- Niche versus diversified service offerings; and
- Size versus transaction cost.

Large firms are just as easy to investigate as small firms, but the transaction cost may be greater.

All of these are enhanced values and are things that buyers should be looking for. A niche market is preferable when the economy is up, but a diversified market is better when times are troubled.

Valuation from the seller's point of view. Internal valuations are typically 30 percent to 40 percent less than external valuations, whereas it used to be fifty-fifty. While many different approaches can be used, affordability is frequently the driver. The emphasis is on the intangibles that are driving the profits, because they can be a temporary element. To know the ingredients to those profits, you have to focus on the intangibles.

Valuation from a buyer's point of view. External valuations are related to the market value of the business in an external sale. Methodologies vary, and many are driven by projected earnings. "Marketability

of the firm is linked to market value—in the eyes of the buyer. It's the intellectual property inside the selling firm that will drive the market value. Normalizing income and expense is crucial. The buyer needs to be able to project those going forward," Wilson pointed out.

How professional acquirers judge firms. Those who buy firms as part of their growth strategy have provided a good list of what they are looking for:

- Is the firm focused on the client?
- Is it financially sound?
- Does it anticipate future growth?
- Is it growing its people by adding new key players?
- Is its management system consistent?
- Is it always trying to improve and evolve?

The parallel valuation approach. What has to be negotiated is not the valuation—it's the list of assumptions that the buyer and seller are making about the future and how those assumptions will affect the value going forward. "It's more about the future business than using a standard calculation. Where negotiation comes in is in those valuation factors that drive the assumptions of the future; the buyer looks into the selling firm and sees a variety of circumstances and compares strategic plans for going forward. What are the expectations for the future, and how are the two firms going to share in the risks and returns on those assumptions?" Wilson said.

Success factors. What makes some acquisitions successful and others not? Wilson defines success as two firms looking back at the transaction of two years ago and saying they were glad they made the deal. Others define it as the degree to which the original

expectations were met or any unexpected results were positive.

Why mergers and acquisitions fail. Although catastrophic failure is rare, the overall failure rate is still quite high. How do you define failure? "Financial failure can be avoided if you do your homework. Don't fall in love with the numbers, and keep your expectations realistic," Wilson warned.

M&A: Drivers, Inhibitors, and Expectations

Drivers of sales

- Internal successors are not good leaders;
- Successors are not financially able to buy;
- The firm's growth is limited without external capital;
- Departing owner wants cash quickly;
- Company culture is not "ESOP friendly"; and
- Founders who are baby boomers want to retire.

Inhibitors of sales

- Acquisition incompatible with firm's culture;
- Desire of founders to maintain legacy;
- Bad taste from prior failures;
- Lack of management depth by acquirers to integrate acquisitions; and
- ESOP already in place.

What BUYERS are looking for

- Selling price that's realistic;
- Post-acquisition commitment;
- Deal structure preferences;
- Key staff commitment;
- Integration; and
- Name change.

What SELLERS expect

- Purchase price as high as possible;
- Post-acquisition commitment;
- Post-acquisition operations;
- Going-forward compensation; and
- Name change.

Source: PSMJ Resources. For more information, contact bwilson@psmj.com

Some of the more common reasons why mergers and acquisitions fail, according to Wilson, result from conflicting corporate cultures and a poor strategic fit. These should be investigated before you ever get to a letter of intent—as should conflicting expectations (between buyer and seller), inadequate preparation (premerger), loss of business momentum (post-merger), unrealistic performance expectations, and lack of key staff buy-in.

Key staff buy-in drives the success or failure of the integration plan. In the absence of key staff buy-in, the cost of failure can be substantial: financial loss, wasted management time, cost of lost opportunities, and wasted staff resources. The short-term costs include morale suffering and job security threatened as a result of not achieving strategic goals.

Earmarks of a truly successful deal.

“A successful deal means a good fit of the people, culture, geography, and combined client base. The buyer has realistic expectations of what they are to receive, and the seller clearly confirms what they have to offer. In addition, the seller was ‘ready.’ They understood that if you sell your firm, you’re going to have a boss. You will draw a salary and march to someone else’s drum,” warned Wilson.

“Also, the buyer was ‘educated.’ They understood that the seller’s management would be inserted into their senior staff structure and work as a new cog in their machine. There was good preparation on both sides. The discussions and negotiations were comprehensive and dealt with up front, so there will not be any buyer or seller remorse. The expectations were realistic, and the process was handled properly, because there was good post-merger planning that began in the early planning stage.

A CEO survey. A recent survey of firm CEOs indicated what they felt was the hard-

est aspect of the entire buy-sell process:

- Measuring cultural compatibility;
- Reaching agreement on price and terms;
- Really understanding expectations; and
- Getting key people of the seller to buy in.

The major overarching issues are that valuations are not accomplished by formulas. The way that deals get done is through a negotiated strategy for going forward into the future. The way you negotiate the strategies is going to be based on the perception of the value that a buyer has of a seller and that the seller has of itself. If the value of those pieces and the fundamental intellectual properties are compatible, the chances are good for success. There is a sharing of risk and reward if expectations are met and when there is a successful integration of the people on both sides. □

Source: PSMJ Webinar series. For more information, contact bwilson@psmj.com.

Exercising Leadership

CONTINUED FROM PAGE 1

Hickok, principal of Hickok Cole Architects, “but we used it to change the attitude of the office into believing that design excellence is no longer a plus, it is expected. ‘Wow’ is now a necessity and the norm,” he asserted.

Hickok Cole Architects is passionate about design and the creative process. The firm believes that great ideas can come from anywhere: from an enthusiastic young designer or a seasoned professional. Inspiration may result from a casual conversation with an employee, an abstract thought about the relationship between worker and workplace, or directly from the client’s program. In every case, the

idea is filtered through an organized and consistent process to ensure that the design meets the client's goals.

Hickok Cole encourages a collaborative design process that includes team members: clients, consultants, and staff. The firm wants to bring creative and innovative concepts to the client that will stretch the imagination. "Our approach incorporates an integrated client-architect decisionmaking process in which we constantly test solutions against the client's design objectives and goals for the project," Hickok said.

"The process is particularly suited to complex projects where the standard solutions just don't apply. Complex projects can take years to design and even longer to build. With this process in place, we are able to see the big picture and maintain focus for ourselves and for our clients," Hickok maintains.

"What's consistent with our bigger philosophy is that the project team that starts the project goes all the way through construction and that experience feeds back into the loop again," says Yolanda Cole, principal, "so it's a totality of work, or comprehensive way of looking at design, that all parts are important to great design.

"We set a goal to shift the focus of the firm from a project management-centric firm toward design in a more focused way, not to lose the project management side but to gain the design side. To emphasize the project design focus, we created a design committee. They do not do design; they support design in the office," she added.

Hickok explained, "The design committee came about when we reorganized the firm into market sectors. The staff members we had were all good team players and managers, and we wanted to find a way to incorporate this expertise across all sectors in the horizontal direction. What we

felt strongest about was design. It wasn't a matter of trying to put somebody or a small group of people in charge of design—it was to find a group of people who could champion design in a variety of ways across all project types," he added.

Goals and tasks of the design committee. The overarching goal of the design committee at Hickok Cole Architects is to become the very best design firm in the region. To achieve this goal, it set forth four main goals:

1. To establish support systems that foster and encourage innovative thinking and sharing of design ideas;
2. To establish skill development systems that help every staff member realize his or her potential;
3. To identify and provide design opportunities for the staff; and
4. To develop mechanisms that ensure design excellence.

Establishing support and developing systems for the control of design quality should focus on four key elements that are critical if a firm wants to achieve great design success. According to Hickok, these are talent, time, process, and presentation. "These components are all interdependent, and design excellence can be achieved best by maximizing all four components," claims Hickok.

Talent. There is no substitute for talent, according to Hickok. Talent provides vision and turns it into an innovative design. We have a greater chance of achieving design success when we recognize and understand the unique talents of our staff members,

The firm wants to bring creative and innovative concepts to the client that will stretch the imagination.

invest in the development of their talents, know how to best use their unique talents, and establish opportunities for them to apply their talents. The tasks include:

- Maximizing the design skills and increasing the design knowledge of existing staff members;
- Identifying areas of talent needed and helping to recruit new talent; and
- Identifying ways to attract new talent.

We had a technical quality control process, and we needed a similar process to make the quality of design consistent.

Time. The objective here is to increase design time and design and presentation efficiencies. Design excellence requires time—time to stew, test, and develop an idea and turn it into a reality. The tasks include:

- Helping to create and foster an environment where staff members are motivated to put in the hours that are necessary to achieve design excellence;
- Improving the staff's overall design and graphic efficiencies;
- Identifying projects where achieving design excellence is more important than achieving the standard profit margin; and
- Ensuring that a sufficient amount of time has been allotted for design and presentation in project proposals.

Process. The process must encourage design collaboration and ensure design excellence. The tasks include:

- Developing a design process that encourages collaboration and interproject awareness and discussions, while maintaining clear leadership and hierarchy of the team;
- Developing a process for design review that will guide rather than direct the team

toward excellence; and

- Developing a design review process that is proactive in ensuring excellence rather than reactive.

Presentation. Raise the graphic quality of presentation, as talent, time, and process are worthless if the design can't be visually communicated. The tasks include:

- Increasing the graphic quality of the office;
- Increasing the graphic efficiency of the staff; and
- Identifying effective presentation tools.

"In order to fully communicate our ideas and concepts, we must present material that not only complements but surpasses our verbal articulation," Cole pointed out.

"The members of the design committee are the ones who come up with ways to invigorate design within the office and to create a design quality control process," Cole pointed out. "We had a technical quality control process, and we needed a similar process to make the quality of design consistent. The design committee came up with a way to use an old standby, the charrette. We also had a client ask us to do a design charrette on the project and actually paid us to do it," Cole added.

Design charrette process. Hickok Cole Architects has a unique design process that enables the firm to bring all of its creative resources to selected projects. After the design team becomes familiar with the specific program and the design opportunities presented, it organizes a "design charrette," a highly intensive period where it engages the best talent in the firm—from young designers to more experienced designers, architects, and interior designers, as well as the most technically sophisticated members

of its staff—and the principals of the firm. This group develops a broad range of design concepts.

Because the team includes architects and interior designers, the concepts will focus on both interior workplace concepts and architectural concepts. The result of the design charrette is an array of far-reaching concepts that will serve as the basis for discussion as the team moves into the more traditional schematic design phase.

"The benefit to our clients is clear," claims Hickok. "Each project will have the attention of the best and brightest, and we can efficiently and quickly develop a set of design concepts that will be both imaginative and inspired by our clients' program. We set up a special studio for the charrettes, and people can visit when they have spare time. We generate a whole lot of pretty wild ideas. We tell clients that we broaden their vision and come to solutions that work for their project," Hickok explained.

"That process was so fruitful that we wondered if we could try it for other projects without breaking the bank," Cole said. "So we do it over lunch or after hours, during nonbillable time. People are excited about the process and are willing to give their time. We put everything up on the wall, and have a general discussion. General agreement occurs around two or three concepts that tend to converge on a few schemes that get developed by the project team. We didn't want to take the leadership away from the project designer, nor the responsibility away from the project team, but give them ideas to sift through. Once people get over the fear that they are going to be criticized and start to see the better design that comes out of this process, they begin to accept it," Cole added.

Design peer reviews and desk critiques. "We also came up with the concept

of a design peer review, similar to a quality control, but more of a pinup. The project team has already been selected, so before the first design schematic presentation to the client, the project team will contact the design committee and ask for a peer review. We budget this into our proposals, so the peer review can charge its time to the project, so anyone from accounting to marketing can join in the pinup. The project team has to articulate their ideas, so it's a practice session for the presentation to their clients. The principals set parameters around the process to ensure that it relates to the clients' objectives and goals," Cole pointed out.

For smaller projects, HCA has developed a system of desk critiques or "crits" where one or two people discuss ideas and solutions to design challenges in a similar manner.

"The designers often ask, 'Do we have to take the suggestions of the peer review?' And sometimes a clash does occur. Technically, the design team is in charge, but they are expected to take the peer review into consideration," Hickok confided. "The design team receives the benefit of being able to formulate and express their concepts in advance of a meeting with the client and prepares the team for the feedback that it might receive. The client receives the benefit of a whole range of ideas from a wider group of design professionals. Everyone wins and the design of the project is stronger for it."

"We have found over the past few years that this process has produced great results. We have incorporated it on two major design competitions, both of which we won, and have more than doubled our design awards during this period," Hickok concluded. □

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