TWO PATHS TO A/E/C FIRM SUCCESS

2019 ALL OHIO CONVOCATION
MAY 1, 2019
THE MOST SUCCESSFUL FIRMS FOCUS ON TWO SIMPLE PRIORITIES

- Make your firm attractive to high-quality clients
- Make your firm attractive to talented employees
THE CHICKEN OR THE EGG??

Which comes first?

- Great Clients with Great Projects?
- Talented People with Great Attitudes?
BOTH ARE COMPLETELY INTERTWINED AND INTERDEPENDENT

Highly talented and motivated architects and engineers create their own demand for their services.

Great clients provide opportunities to apply that talent and are willing to pay for it so you can pay the employees.
SO WHAT’S SO DIFFICULT ABOUT THAT?

- It only takes one low-quality client or employee to poison the culture of your firm
- How do you grow your firm without compromising that quality?
RECRUITMENT AND RETENTION OF HIGH-QUALITY STAFF
IT STARTS WITH YOUR CULTURE

- Is payroll looked at as an expense or an investment?
- Do you invest in low quality assets?
- Are performance standards set high and clearly communicated?
- What happens when poor performance occurs?
A/E FIRMS ARE NOTORIOUSLY BAD AT TALENT AND PERFORMANCE MANAGEMENT

- Not “wired” for interpersonal aspects of the business
- A challenge and an opportunity!!!
- Get good at H/R (hire someone who is)
YOUR CULTURE CAN ACTUALLY POLICE ITSELF

- Proactive recruiting and hiring practices
- High expectations for performance
- Objectively measured standards
- Significant compensation differentials
DO’S AND DON’TS OF RECRUITING

DO get your staff involved, DON’T be cheap

DO a lot of investigation before the interview

DON’T make the interview into the inquisition

DO sell the opportunity to the best candidates

DON’T exceed the market with base compensation
PERFORMANCE MANAGEMENT AND COMPENSATION

- Performance management must start at the top
- All employees need objective and subjective goals tied to a career development path
- High performers get the best bonuses and future opportunities
INCENTIVES OR REWARDS?

- A good incentive plan is better than a good reward plan
- A reward plan of any kind is better than a bad incentive plan
PERFORMANCE AND SALARY REVIEWS

Never in the same meeting!!!

One is about performance – highly variable

One is about long-term career growth and the market

The outcomes are directly related to the investment of time by the firm
WHY DO GOOD PEOPLE LEAVE?

Lack Of:
- Recognition
- Challenging work
- A higher cause
- An H/R management system

Too Much:
- Bureaucracy
- Politics
- Of an unprepared manager
TOP PERFORMING A/E FIRMS

- Have about 7% annual turnover
  - ½ of that is “employer sponsored”
- Pay a little more in base salary than median firms
  - $82,000 vs. $77,000
- Have a much bigger difference in total compensation
  - $104,000 vs. $85,000
- Employ H/R professionals much earlier
  - 1 to 38 FTE vs 1 to 78 FTE
SECURING AND MAINTAINING HIGH-QUALITY CLIENTS
ARE YOU CHASING PROJECTS OR CLIENTS?

- Recent PSMJ survey shows that 83% of all A/E firm revenue comes from repeat customers
- Is that a good thing?
  - Much less marketing expense
  - But are they “Quality”?
ARE YOU CHASING REVENUE OR PROFITS?

- Strong industry pressure to keep everyone busy
- Can incentivize bad marketing behavior
- It is much easier to sell fees than margin
- How do you deal with a long-term client who gives you a lot of low-margin work?
FIRST: LET’S DEFINE “QUALITY CLIENTS”

- Three Classifications:
  - One-off, great opportunity
  - Common repeat client
  - Loyal, symbiotic relationship
WHAT DEFINES QUALITY IN YOUR FIRM?

- Sole sourced projects?
- Fair negotiations / contracts?
- Has lots of projects?
- Projects are challenging / fun?
- Willing to accept change orders?
- Pays their bills on time?
- **Respects your expertise and is willing to pay for it...**
1. Focus on adding value, not selling hours
2. Maximize the “net benefit” to your clients
3. What truly differentiates your firm
4. Clients must not see you as a commodity

THE CONCEPT OF GROSS PROFIT SOLD
<table>
<thead>
<tr>
<th>Cost of Labor</th>
<th>Pass Through Costs</th>
<th>Value Added</th>
<th>Fee Sold</th>
<th>Gross Margin</th>
<th>Planned Net Fee Multiplier</th>
</tr>
</thead>
<tbody>
<tr>
<td>$3,000</td>
<td>$1,000</td>
<td>$6,000</td>
<td>$10,000</td>
<td>60%</td>
<td>3.33</td>
</tr>
<tr>
<td>$5,000</td>
<td>$1,000</td>
<td>$4,000</td>
<td>$10,000</td>
<td>40%</td>
<td>2.00</td>
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#1 reason cited by defecting clients = indifference by A/E firm

- Doing a fine job delivering the project
- Can’t complain about the responsiveness
- Technical solutions met the need
- Fees and contract terms are fair

Maybe there is another firm out there who will go a little further?
THE CONCEPT OF “CLIENT MAINTENANCE”

How do Project Managers do marketing?

By securing repeat business and referrals from quality clients
CLIENT MAINTENANCE DOESN’T HAPPEN BY ACCIDENT

- Requires a task code in the job cost system
- Requires a budget of time for each client
- Requires accountability for that time
- Requires detailed plans with targeted outcomes
HOW DO YOU KNOW HOW YOU’RE DOING?

- Getting repeat business isn’t enough – you could just be the best bad firm around...
LESS THAN 10% OF A/E FIRMS UNDER 100 PEOPLE ASK THEIR CLIENTS FOR WRITTEN PERFORMANCE REVIEWS

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<th>Must be an organizational priority</th>
<th>• Strategic goals for targeted client ratings</th>
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<td>Outsourced surveys get better response rates</td>
<td>• 7-10% vs 3-5% (increases over time)</td>
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<td>Works best when there is a “Client Sponsor”</td>
<td>• Sometimes known as the PIC</td>
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CLIENT SPONSOR VS PROJECT MANAGER

Client sponsor knows the client

Client sponsor is familiar with the project

Client sponsor collects client feedback

Client sponsor is the client “relief valve”

Project manager maintains the relationship

Project manager delivers the project

Project manager keeps the client happy

Project manager responds to concerns
A typical “Balanced Scorecard” performance review for a project manager

- Amount of repeat business secured on a non-competitive basis
- Net revenue deficit (surplus) on assigned projects
- Client feedback rating
- Professional development (technical or management)
- 360-degree feedback from other employees
- Amount of potential performance bonus earned
TOP PERFORMING A/E FIRMS

- Well defined quality client criteria
  - Applied to new and existing clients
- Selling value and not “brains by the hour”
  - 3.55 vs. 3.10 target multiplier
- Project managers drive repeat business
  - 2-3 hours per week for client maintenance
- Get written client feedback continuously
  - Client ratings in PM performance reviews
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Questions

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