

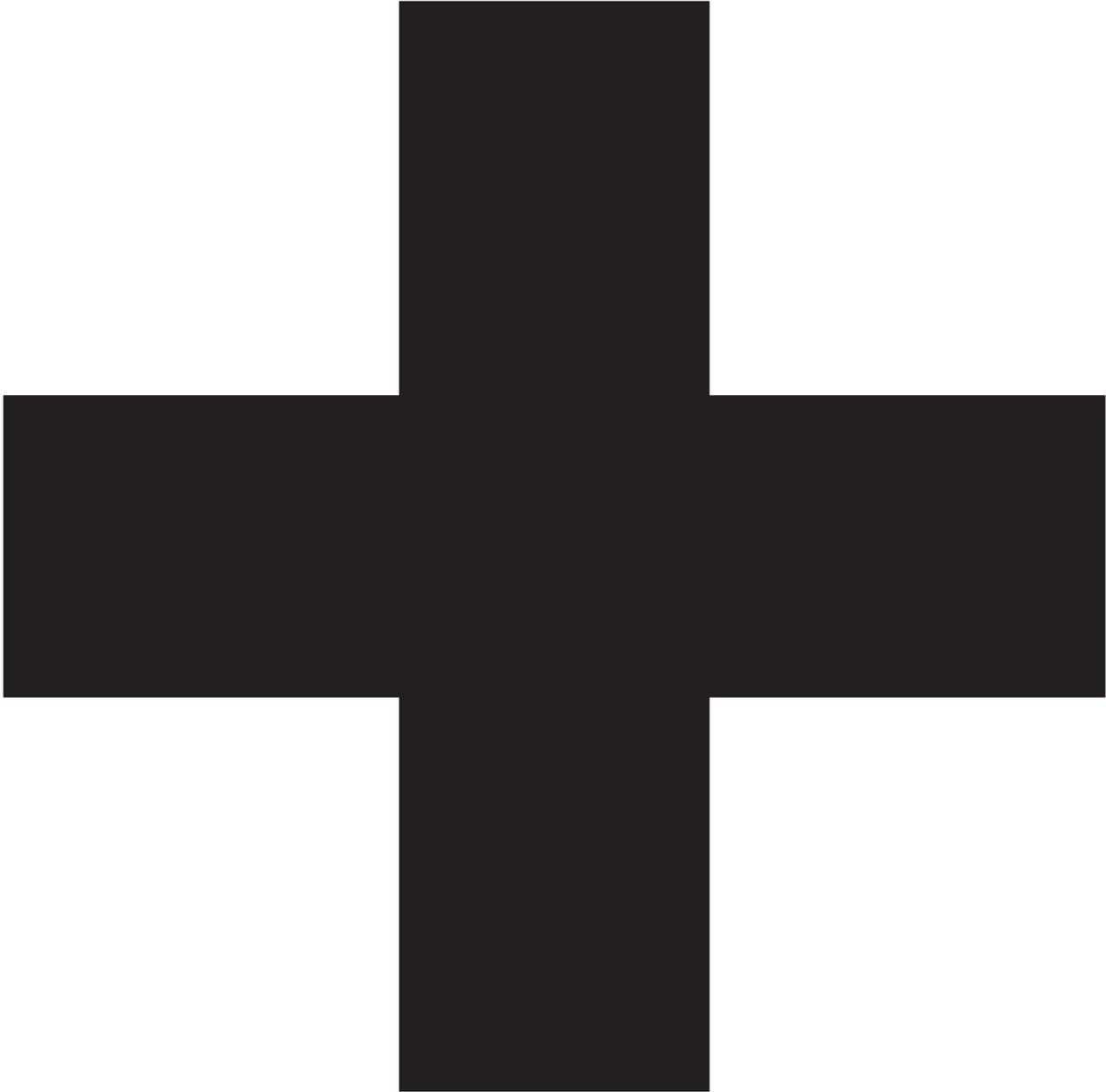
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Profit & Loss

By Douglas Quenqua

MOST DESIGNERS LEARN the hard way. They take on a project that should only last a few months, or require a few thousand dollars in materials, and provide an estimate based on those projections—one that should provide a comfortable profit if all goes according to plan.

EXCEPT IT DOESN'T.

Profit & Loss

The client turns out to be especially high-maintenance or needy, or simply indecisive. Or initial demolitions reveal unexpected obstacles, or a vendor fails to mention his tiles require a special, expensive adhesive. Or something breaks and must be replaced at the designer's expense.

Whatever the reason, the project is soon over budget and over long, and that comfortable profit margin has all but vanished, transforming what should have been a lucrative effort into a de facto charity job. And the designer is left wondering where it all went wrong.

It happens to even the smartest designers. But those who have been through it say there are steps you can take to prevent it from happening again, or at least from happening too often.

THINK AHEAD

"Designers only have what information the client shares, or knows about, to base estimates on," Terri Maurer, FASID, founder of Maurer Consulting Group in Akron, Ohio, says. "It's worth the effort to make a phone call or two to get as accurate an estimate as possible before just throwing some dollars at something and finding out later you were way off in your estimate."

Maurer says the best way to avoid losing money on any project is to take the time to learn as much as you can about it up-front, and then be realistic about its cost—avoid the temptation to win work by being the lowest bidder.

"Be detailed on the front end of the project when putting together budgets and estimates," she says. "Don't try to be the 'low bidder' just to get a job, as you will end up losing money, hating the client and not enjoying the project very much."

Designers say the most important part of this is determining how much time to allot a particular client, as time is the most likely expense to get out of control.

Unlike materials or other physical expenditures, time requirements are notoriously difficult to gauge, because every client is different. Where one client might be happy meeting 30 minutes per week just to make sure things are on track, another might require an hour-long meeting just to decide which doorknob they prefer, or have no qualms about calling several times a day to rethink decisions.

KNOW YOUR CLIENT

The trick is to divine up front just how needy or time-consuming a client will be. "It's all about knowing how to read people," says Jennifer Striepling, ASID, founder of JPS Design and Project Management in Milwaukee. "I always set up an initial consultation, which should take about an hour or an hour and a half, that will really gauge their personalities," she said.

Striepling credits those consultations with preventing several projects from becoming unprofitable. Last year, she was hired to renovate a family-owned restaurant, and the initial consultation with the family ended up taking half her day—a sure sign they would require more time than the average client.

"This was just a meet-and-greet and it took four hours," she recalls. "How is it going to work when I'm going over floor plans and specifications? So I had more time put in that proposal for meeting time than actual design time."

Striepling is also careful to make sure her clients know when she is close to putting in more hours on a project than she had originally allotted. "If we have 60 hours in the contract, and we're at 55, I let them know," she said.

Susan Hergenrather, Allied Member ASID, who, along with her husband Neale, runs design shop H2 in Springfield, Va., limits the time she spends with clients simply by scheduling every meeting not just with a starting time, but with an end time as well.

be prepared

Take the time up-front to learn as much as you can

vague information

Incomplete information leads to inaccurate estimates

endless meetings

Client wants to meet extensively

“It’s like I’m a therapist,” she explains. “If I’m coming at 1, I’m out of there by 2. And I make sure they know that.”

COMMUNICATION IS KEY

Ongoing communication with the client is essential in order to avoid cost overruns on any aspect of a project, says David Shepherd, president of Designing Profits and a faculty member at the McCombs School of Business at the University of Texas at Austin.

“If a project is getting off course and no one knows it, then by the time you get to the end, if there is a difference between a client and the designer, that is a very difficult situation to resolve,” he says.

For that reason, designers should make clients aware of all aspects of the job that threaten to go over budget as they become a problem. “What became a \$100,000 cost overrun in the 18th month was probably a \$175 dollar cost overrun in the second month, but nobody caught it,” Shepherd says. “That’s when you’ve got to catch it.”

VENDORS AS PARTNERS

Less manageable, but nearly as common, are conflicts with vendors, which inevitably take money out of the designer’s pocket. For example, if a piece of furniture arrives damaged, or an appliance doesn’t live up to expectations, it is often the designer who is expected to pay the difference, because he or she is uncomfortable asking the client to cover the expense, and getting a vendor to pay can be nearly impossible.

“Design firms are generally much smaller than the manufacturers that they’re dealing with, and probably need those manufacturers more than the manufacturer needs a single designer,” Shepherd explains.

One solution is to establish some sort of escrow arrangement when paying manufacturers, withholding a portion of the payment until all products are delivered satisfactorily. While not all manufacturers are willing to go along with such an arrangement, designers can band together to gain some leverage. Shepherd has helped establish a Best Practices Network of about 100 firms that meet regularly not only to share knowledge, but to “try and gain some leverage with vendors,” he says.

But in the end, a certain number of cost overruns are all but unavoidable, and long-term success depends on establishing a business model that takes them into account even as designers work to minimize them.

“I would encourage designers to assume there will be some loss along the way and just make that a part of doing business,” Shepherd says. “That doesn’t mean you don’t fight it like crazy, but you need to build a business model that will sustain that type of hit.” **i**

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watch the clock

Establish start and end times for all meetings

product partners

Ask vendors for an escrow or similar arrangement

vendor conflicts

Problems with product can become costly