

Enhance Project Profitability

Closing the 'Holes in the Floor'

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Too many firms report project profits have vanished by the end too many projects. The one key reason firms lose or greatly diminish their profit margins? They are doing the work and then not billing the time.

This quick overview cites the top 5 reasons firms are losing their profit margins. Do they sound too familiar? Let's look, then, close up the 'holes in the floor'.

In most firms, there is a usually some difference between the number of hours that are worked on projects (direct hours) and the number of hours that are actually billed to clients. This holds true whether a firm bills clients by the hour or by percentage of completion in a fixed fee contract. In a fixed fee contract, it may be more likely that there are direct hours unbilled to clients, since the project budget can't be exceeded. However, realistically, even in hourly contracts, it is rare that all direct hours are actually billable.

Following is the Top 5 reasons why firms pile on the number of hours that don't get billed to clients:

1. Scope creep

If scope of services is not carefully described and outlined in the agreement – or, worse, if clients are not asked, or don't expect to pay more when they request additional services – firm owners are simply leaving money on the table. Don't work for free! Be sure your clients understand exactly what you are agreeing to do in exchange for what they are paying. Be explicit about basic services, additional, and excluded services. **Communicate regularly with your client about the progress of the design process and stay current with invoicing throughout the project.**

2. Work processes that don't work

Work processes can be improved with good business practices and a little forethought. The staff knows where the log-jams are in their work process. Ask them to work together to identify, design and implement improvements. Good business practices continually seek answers to: "What challenges seem to occur repeatedly?" "What's in the way of our people's productivity?" Then design ways to improve the situation. Underlying issues may include:

- the lack of a process for internal knowledge transfer and adaptation
- principals who are micro-managing and are the bottleneck in production; and wasted effort due to late-in-process design changes, or a tendency toward 'excessive perfection'. (Know when to put the 'pencils' down.)

3. Balance the talents

In most firms, the key to sustainable profitability is having a balanced team in terms of experience level and having the right people doing the right tasks. When principals do what project architects could do, the firm is losing money. When project architects do what interns or technical staff could do, the firm is losing money. Best practice is to shift project management from principal to project architects as soon as possible in a project and for project architects to mentor and enable junior staff to take on more of the workload.

4. Not charging enough

Quite simply, many owners of, particularly, small firms undervalue their services. For example, a firm will determine their hourly rates and project fees based on what they think the client is willing to pay, without truly considering what it will take to do the project, cover overhead, and include a profit factor. Resist the urge! The hourly billing rate of each staff member needs to be at least 20% over each person's cost rate plus overhead (break-even rate). Calculate the fee for each phase of the project at each person's break-even rate and then figure it again with a billing rate that includes a 20% profit. This will give you a fee range for each phase and a bottom line figure you should not go below.

5. Accountability and time

We hear more frequently from newer project designers and architects that they have little insight into how much time they have to accomplish a designated task. Are project managers holding their teams accountable? Are principals holding their project managers accountable? Is it a big surprise when they go over their time budget? Without project feedback and accountability, learning does not take place for the next time and the cycle of fees being diminished by unbilled time continues. Use dashboards so everyone knows precisely where they stand as it relates to remaining fee. Uncover where the weak links exist in your pricing or project execution.

Take charge

Controlling scope creep, improving work processes, balancing talents and experience of your staff, and making sure that you are charging enough are the keys to becoming more profitable. All involve examining how you are currently doing things and whether those ways are still serving your goals. Do project teams know what the fees are? What is left to do and in what amount of time?

Take a critical look at your proposals and agreements, how you develop fees and how effectively work is accomplished. It might be difficult to find time to do the work and run the business of design but the potential reward – being paid for the time you have given to a project – is worth it!

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