**AIA Practice Management Knowledge Community**

# The Firm of the Future:

**Big Picture Trends Shaping the Future of Architecture Firms**

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## Acknowledgments & Credits

- AIA
  - Firm Survey
  - Kermit Baker, Chief Economist
- America2050.org
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  - Colvin Matheson, Matheson Financial Advisors
  - Kathryn Sprankle, Sprankle Leadership
- Bob Willard, The Sustainability Advantage
- Lots of architects, engineers, and others…

## Overview

- Demographics
- The Markets
- Technology
- Your Projects
- Your People
- Your Leaders
- The Industry
- Our Resources

## The Future

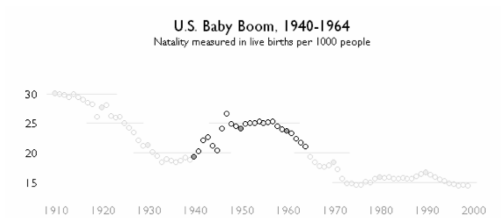
"Trends, like horses, are easier to ride in the direction they are already going."
John Naisbitt, *Megatrends*, 1984

"I skate to where the puck is going to be, not to where it is."
Wayne Gretzky

## Demographics

Unlike most other trends, demographics can be accurately anticipated
- Key trends form foundation for many other forecasts
  - To a large extent, demographics drive everything

## Demographics

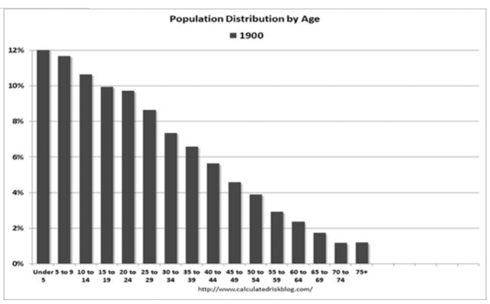



U.S. Census Bureau

## Demographics

America 2050 Prospectus

## Demographics




CalculatedRiskBlog.com

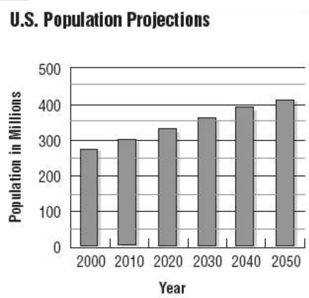
## Demographics

Good news for boomers:

"You can live to be 100…if you're willing to give up all the things that make you want to live that long."

Woody Allen

## Demographics

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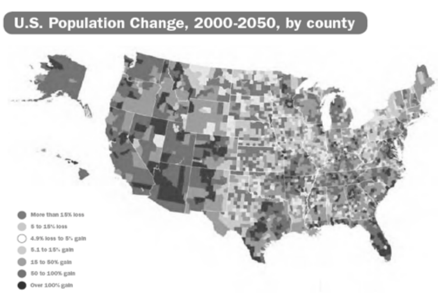


America 2050 Prospectus

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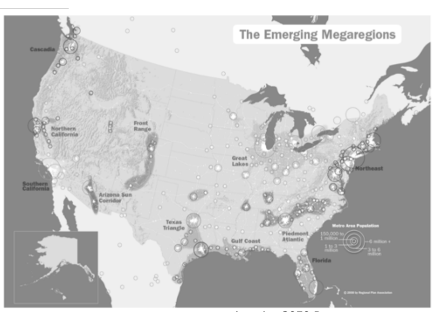


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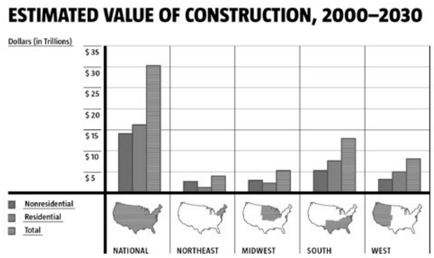



Architect magazine

## The Markets

- What will more people—wherever they are—continue to need?
  - Living (housing)
- The ripple effect of more "rooftops" on:
  - Learning (education)
  - Working/spending (commercial/retail)
  - Healing (healthcare)
  - Infrastructure
    - Transportation, energy, water, food
- Redevelopment & re-purposing buildings
  - Big-box, malls, other project-types

## The Markets

- Commoditization and competition
  - Proliferation of firms, including "spin-offs" (voluntary or not) from recession
  - Encroachment of competitors, both from within and from outside architecture profession
  - Will challenge architecture firms to differentiate themselves
    - Why do clients hire your firm?
    - Selling labor vs. providing valuable solutions
    - Requires real understanding of drivers of clients' "business"

## Technology

BIM will…

- Become increasingly—but not universally—adopted by architecture firms
- Continue to be driven by contractors and sophisticated owners who have the most to gain
- Influence—and be influenced—by larger trends in project delivery
- Facilitate—even force—collaboration among traditionally "non-collaborative" project team members

## Technology

BIM's influence will…

- Projects: Require more up-front intelligence and effort earlier in the design process
- Staff: Further widen the existing gulf between technically proficient (younger) architects and technically "deficient" (older?) managers
- Contracts: Present opportunities & pose threats for firms to reconsider scope of services, intellectual property, design liability, risk management & compensation

## Technology

Non-BIM technologies

- Project design
  - Generative design, parametrics
- Firm management
  - Project management
- Impact of communications and social media
  - Blurred lines between work and non-work life

## Your Projects

Contractor-led D-B and contractor BIM usage will lead to expanded role for GCs
- Threats to design firms
  - Owners paying for contractors to use BIM
  - A&E services may become (further) commoditized
  - Design professions may be (further) marginalized
  - Blurring of design & const. raises liability concerns
- Opportunities for design firms
  - Pre-construction with contractor & design team can increase efficiency, lower construction costs, potentially reduce E&O

## Your Projects

Integrated project delivery
- Complexity and collaboration: risk/reward sharing among owner, design team & contractor
- Facilitated by BIM & other technologies
- Driven by non-design parties in the design & construction process; promoted by AIA
- AIA contract documents & AGC ConsensusDocs have standard IPD contracts
  - Few cases based on contracts so far

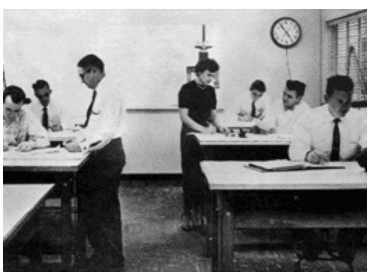
## Your Projects

Extended range of non-design services
- Blurring of traditional roles & responsibilities
- Firms will have to become broader project delivery firms, not just design firms
  - Design—and traditional architectural services—will be just one "middle" service in an extended continuum
  - Project delivery will include front-end program management, financial consulting & project feasibility as well as tail-end O&M consulting

## Your Projects

- Project management will remain a critical success factor
  - Client demands, fee/profit, schedule, risk
  - Will require broader & different skills
    - Business/finance; communications; psychology
    - Project managers may not be architects
    - Best PMs will manage their projects like CEOs of mini-firms, training and positioning themselves to be future firm leaders

## Your People



## Your People

- Architecture firms will face a skills shortage
  - Population trends will mean smaller employment pools
    - 44% of AIA members are older than 50
    - In next 10 years, 55-64 will *increase* by 47% while 33-54 will *decrease* by 6%
    - Remember the population charts!

## Your People

Factors contributing to labor shortage
- Long-lasting impact of recessions
  - Gen-Xers and Millennials will be more recession-savvy and recession-shy
- Ongoing recruiting, retention & reward challenges
- Attracting architects vs. other professions
  - Considering career forecasts for architects
  - Considering intern compensation
- Talent will migrate to more profitable companies & away from "pure" A&E firms

## Your People

Workforce dynamics
- Priorities and preferences of Millennials
  - Don't expect to work with one firm—or even necessarily practice A or E — forever
  - Value independence more than "getting ahead"
  - Willing to work hard, but also life outside work
  - Want hands-on experience with interesting projects
  - Technology: always in touch and able to work
  - Expect frequent constructive feedback
  - How will you manage a virtual 24-hour office?
  - How will you measure performance with traditional metrics like utilization?

## Your People

Conservative nature of most firms
- Lack of flexibility re family demands, time availability, parenthood, (re)location, etc.
- Not addressing "deadwood" issues

What can firms do?
- Develop a training & development program
- Mentor employees' career development
- Be flexible with work arrangements
- Actively listen and really care!

## Your Leaders

If a firm is short on *money* it can borrow
If a firm is short on *work* it can market
If a firm is short on *leadership*…

- Few options for leadership succession
- Impossible to develop in a hurry
- Risky to bring in from outside

The challenges will be both quantity and quality

## Your Leaders

In an increasingly complex world, the next generation had better be better than you: smarter, faster, more entrepreneurial

- What is the success profile of future leaders in your firm?
  - How will it have to change?
- Do you know how your key individuals fit into the future of your firm?
  - Do you have key individuals for the future of your firm?

## Your Leaders

- Have you identified the leadership roles that will be vacated in the next 5-15 years?
- Are there enough people in your talent pool to meet (or exceed) those needs?
- What—exactly—are you doing now to identify and develop your firm's future leadership talent?

## Your Leaders

Leadership succession challenges will translate into ownership transition hurdles
- Many entrepreneurial boomer founders with concentrated ownership
- More sellers than future buyers
  - Many post-boomers lack financial capacity, interest, and are risk averse
  - Sellers need more buyers for broadened ownership & increased value of firms
- Will contribute to industry consolidation

## The Industry

| | 1973 | 1997 | 2002 | 2008 | 2011 | Compound Annual Growth Rate | Source |
|---|---|---|---|---|---|---|---|
| Total U.S. Construction | $567B | $656B | $847B | $1072B | $772B | 0.82%/year | U.S. Dept. of Commerce (constant '96 $) |
| U.S. Population | 212M | 273M | 288M | 304M | 312M | 1.02%/year | U.S. Census Bureau (millions) |
| # A/E/S Firms | 25,000 | 93,000 | 107,000 | 117,000 (2007) | 107,000 | 3.9%/year | U.S. Census Bureau (NAICS 5413) |
| # AIA members (incl. Allied & Assoc.) | 24,000 | 58,000 | 68,000 | 80,000 | 72,000 | 2.9%/year | American Institute of Architects |

## The Industry

Simultaneous consolidation & expansion
- Boomer retirements will drive consolidation
  - Separating leadership from ownership will be major obstacle for profession
  - Next generation in growing firms that have concentrated ownership won't be able to afford to buy out current owners—or may not want to
  - Even worse when current owners are boomer founders who haven't planned ahead for leadership or ownership transition
  - Both firm sales (consolidation) and spin-offs (expansion) are likely results

## The Industry

Architects are professionals, but architecture firms will have to become more successful as businesses

- Why would anyone—*inside or outside your firm*—invest in your firm?
  - Median profit margin 12% (PSMJ) or 10% (AIA)
- Competitive environment will make some firms acquirers and other firms targets
  - Biggest firms will get bigger
  - Overseas firms will increase their foothold
  - Firms providing real value to clients will do best

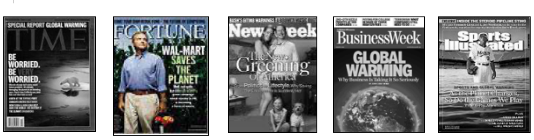
## Our Resources

Sustainability

- Increasing pressure to incorporate sustainable design into projects and adopt sustainable business practices
  - From employees
  - From clients
  - From investors
  - From end-users
  - From government
  - From within our industry

## Our Resources

Sustainability…from end-users & consumers




Bob Willard, The Sustainability Advantage

## Take-Aways

"It is not the strongest of the species that survives, nor the most intelligent,
but the one that is the most responsive to change."
Charles Darwin, *On the Origin of the Species*, 1859

"The illiterate of the 21st century will not be those who cannot read and write, but those who cannot learn, unlearn, and relearn."
Alvin Toffler, *Future Shock*, 1970

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**QUESTIONS AND (MAYBE) ANSWERS**

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