

arcCA

architect in the community issue

11.2

architecture california
the journal of the american institute of architects
california council

Crissy Field Center, San Francisco, Project FROG

The Business of Architecture

People Know Brad Pitt Wants To Be an Architect, but . . . Research Entrepreneurship Mergers & Acquisitions
Can CAD Be Saved? California Prefab: Current Market Report Architect as Developer
What I Learned from My Former Employer that I Didn't Appreciate at the Time

At the root of the suspicion about mergers and acquisitions are the biases of many design professionals against large firms.

Mergers & Acquisitions: Why Design Firms Shouldn't Ignore Them



Mark Cameron

If you were to ask the opinion of a practicing architect about the recent spate of acquisitions of large U.S. architecture firms, most would say that these acquisitions don't have any effect on their firms. There is a common belief that what is happening 'out there' at the mega-firm level is an exception, and has no relevance to mainstream design practices.

Even architectural press editors have a tendency to scoff. A recent article in *Architectural Record* (March 2011) editor C.J. Hughes acknowledged the strategic advantages that mergers provide, but asserted that 'it is debatable whether mergers will continue as a trend.' His opinion was that practitioners would shy away from them for fear of losing their existing culture and their design voice.

Certainly, some will shy away from it. But, let's not be in denial about what all this activity may mean for the future.

Factors Driving Mergers or Acquisitions

It's important to have a historical perspective. Mergers and acquisitions, considered by some to be a recent fad, is actually a trend that started decades ago and is picking up steam.

Secondly, the factors influencing whether to consider acquiring another firm or to be acquired, haven't changed and aren't going to any time soon. The reasons that are commonly articulated are:

- Access to deeper expertise or markets;
- Broader geographic reach;
- Access to the talent pool in a new region;
- Reduction in overhead costs through efficiencies of scale, resulting in more competitive pricing;
- More capital for IT and R&D;
- Stronger portfolio in specific markets, which means greater competitiveness.

In a business climate that is more competitive than ever, these reasons gain even more importance.

In addition, one must factor in the personal self-interest ingredient. The money factor will be a major consideration for the Baby Boomers nearing retirement age. Here is how it works: a major shareholder of a design firm nearing the end of his career, wants to monetize all the years of hard work and sacrifice, and believes he/she can't get an adequate return by handing over the reins internally. Either their potential principals don't have 'the right stuff,' or they haven't been compensated adequately over the years to build their net worth, so that they can buy out the retiring principal. The best chance is to sell externally.

But, just because the giant firms may be consolidating, does it have any impact on the smaller firms? Remember, the average size AIA firm is less than 15.

Large Firms as Pioneers

To answer this question, let's recognize the role that large firms have played as pioneers for the industry. Some examples:

Large firms invested in CAD early, when many professionals in smaller firms regarded it as a fad. Large firms also invested early in BIM. They made the first explorations into large international markets, like China. Principals of a large health care architectural firm created the concept of 'evidence-based design' and used their credibility and commitment to the idea to give it wings. Finally, large firms developed internal knowledge networks, to spread best practices across their offices.

In all these cases the large firms paved the way for mid-sized and smaller practices to adopt some of these tools and approaches. It is a reasonable conclusion that large firms are harbingers of what is to come. So, if large firms are pointing the way toward consolidation, you can count on it that acquisitions will be more prevalent over time.

Concerns about Large firms

At the root of the suspicion about mergers and acquisitions are the biases of many design professionals against large firms.

It is commonly assumed that in a small firm the practice of architecture is very different than in a large firm. In large firms, "principals lose touch with projects;" "a principal goes to the interview and is never seen again;" "the culture is cold and impersonal and an individual is not valued;" "the only interest is in the bottom line."

There is also a bias that innovation happens only in small firms. Not only do practitioners hold to this belief, but even some consultants do. In a recent paper, "How Bleak is

the Mid Size Firm Future” Coxe Group’s Hugh Hochberg wrote, “The firms that do the most exciting, creative work with the most consistency are, with a few exceptions, small and midsize.”

Really? Is Foster’s Clark Center at Stanford not creative? Is Craig Hartman’s Cathedral of Christ the Light a ‘cookie-cutter’ building? Is NBBJ’s Gates Foundation Headquarters in Seattle a conventional office development? What about Perkins+Will’s new university in Saudi Arabia for 8,000 students, completed in three years? Didn’t conceiving and delivering that project require considerable innovation?

We believe that the perceptions about large firm are largely just biases. Innovation can occur anywhere. It has been our experience from consulting to some of these large firms that they are keenly interested in having a strong design culture and in achieving design excellence. Most Principals in large firms value their project involvement, and if you were to ask their clients, they would often say that the principal was ‘hands-on’ and available to them when they were needed.

The ‘trick’ is to make sure their large company structures, which are necessary to operate, don’t impede the aspirations of its professionals; and that the design culture of the firm is valued and protected.

Learning from Mistakes

When acquisitions have gone badly, it was seldom related to the structure of the deal, but rather in the melding of two firms into one. A few of these situations have been widely re-

ported in the design press. But, surely that was not by intent: no acquiring company wants to pay for a firm and then see its potential disintegrate.

What is significant to note is that the companies which intend to continue making acquisitions are analyzing what worked—and didn’t—in previous situations, and changing their processes so as to be more successful in the future.

What does the future look like?

If there will be a lot more acquisitions or mergers in the future, what will be the complexion of architectural practice in that future world?

Our industry has already evolved to where there are a few giant companies. While many people criticize them for their failings, over time these companies will have learned how to integrate their acquisitions better, and then will be more effective at leveraging their global footprints and achieving the efficiencies of scale.

We expect to see many firms emerge in the 500-1,500 size range, created through acquisition of mid-sized practices. The rationales for creating these combined entities are to achieve the results defined in the beginning of this article. In undertaking their acquisitions they will have benefited from the lessons learned by the giant companies. As long as they continue as privately held businesses, they won’t have to deal with the tyranny of quarterly earnings statements for publicly traded design companies.

Design professionals in these 500-1,500

person firms will share a commitment to quality, to exemplary client service, to design excellence. They will have more specialized resources, so as to be more credible to potential clients. The companies will have more capital, so as to reinvest in improvements to the practice and the business. They will be strategically placed geographically to have access to a larger talent pool and to bring value to their client base.

Of course, there will always be room for the signature design firm, built around a strong personality and sought out for their distinctive look.

But, what does this mean for the 30-80 person firm practicing regionally? Are their days numbered? Our opinion is, they will have to be of outstanding caliber to be competitive. In their expertise they will need to be genuine ‘thought leaders.’ Even with fewer resources, they will still need to invest in R&D to drive innovation. Their leaders will need to have broad skills, not only in technical aspects of the profession, but also in the ‘soft’ skills of client management and communication. ©