PROFESSIONAL PRACTICE 544

OFFICE MANAGEMENT AND FEE CALCULATION

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WHAT TO CHARGE AND HOW TO STRUCTURE

Determining Fees

Fee is calculated on the basis of a Percentage (%) of the Cost of the Work or the Construction Cost

- Are there any generally accepted percentages?
  - Residential (multi-unit, single family), commercial, office space, civic, industrial
- The issue of the $ "curve." More cash up front as opposed to a smooth line of payment.
- Is the client secure with the fees being charged? What about the up-front curve?
- The ethical issues of overruns (or under) – Is the work performed equal to the fees billed?

Determining Fees

Fee is calculated on the basis of a Percentage (%) of the Cost of the Work (or the Construction Cost)

- What is a Construction Cost?
- When is the Construction Cost determined for calculating and invoicing for fees, when payment is based on a percentage of those construction costs.
  - At the time of bid?
  - Is a change order needed if the all-in cost of the project winds up being greater than the bid?
  - How do you bill for the increased fee when the Construction Cost goes up?

Determining Fees

Fee is calculated on the basis of Lump Sum

- You must know your costs very well, or you can get burned!
  - Look to the previous analysis
  - Assess your overhead and profit margins
- How do you bill for the increased fee when the Construction Cost goes up?
- What if scope changes?
- How to handle additive change orders? How are deductive change orders handled?
- What about inflation?
- What about market price influences?

Determining Fees

Fee is calculated on the basis of Hourly Compensation

- No limits?
- This method could reward inefficiency!
- Fixed rates vs. current rates?

Payment Schedule

Total Fee Quote **$600,000**
Consultant costs **200,000 - (about 1/3)**
$400,000 - Total Architectural Fee Generated

Phase	Duration	Fee	Payment
SD (15%)	2 months	60,000	2 @ 30,000
DD (20%)	2 months	80,000	2 @ 40,000
CD (40%)	4 months	160,000	4 @ 40,000
BN (5%)	1 month	20,000	1 @ 20,000
CON (20%)	12 months	80,000	12 @ 6,666

Make a time chart showing phase durations, and intervals between phases (approximate). Then, insert realistic payments. (You must also always consider the time that will elapse between billing and receipt of payment).

FINANCIAL MANAGEMENT

Financial Management – Cost & Expenses

Small Office Production Cost (payroll):

1 Principal @ $175,000	$ 175,000
2 Associates @ $75,000	150,000
1 Senior Architect @ 65,000	65,000
2 Junior Architects @ $55,000	110,000
2 Beginners @ $35,000	70,000
	$ 570,000
Plus	45,000
Health Insurance	100,000
	$ 715,000

Billing 40hr/week @ 50 weeks = 2,000 hours

To bill 8 hours – work 10+ hrs/day

8 persons @ 2,000 hrs/year 16,000 hours

$715,000 ÷ 16,000 hours = 44.69/hour

Small Office Misc. Expenses (overhead):

Secretary	$ 60,000
Receptionist	45,000
Rent	65,000
Professional Liability Insurance	85,000
Other insurance	20,000
Printing	15,000
Phone, Fax	15,000
Utilities, supplies	15,000
Legal	20,000
Accountant	10,000
Miscellaneous	30,000
	$ 380,000

$380,000 ÷ 16,000 hours = $23.75/hour

Total Cost & Expenses w/o profit $44.69 + $23.75 = $68.44/hour

Financial Management

To Make A Profit

Total w/o profit $44.69 + $23.75 = $68.44/hour

Goal of 20% profit of total cost output: $68.44 x .20 = $13.69

Rate	$ 68.44/hour
add:	$ 13.69/hour
Average hourly billing with profit:	$ 82.13/hour

Round up to: $ 85.00/hour

SUSTAINING OPERATIONS

Fees Necessary to Sustain Operations

Need To Stay in Business (without profit)

Production cost	$ 715,000
Overhead	380,000
	$1,095,000 ÷ 12 Months = Generate $91,250/month

Need to Stay in Business (with profit)

If 20% profit is added:	$1,095,000 x 1.20 = $1,314,000
Total:	$1,314,000 ÷ 12 Months = Generate $109,500/month

*This is for only the straight architectural portion of the Project.

Fees to Sustain Operations

If generating $1,314,000 in architectural fees, the projects also will require consultants for the MEP engineering (mechanical, electrical, and plumbing)

Consultant costs equal about 35% of total fee

Architect (65%):	1,314,000
Consultants (35%):	707,500
Total Fees Generated:	$2,021,500 fees per year**

If the average fee an architect charges is 4% of construction cost, then $2,021,500 in fees represents $50,537,500 of construction volume per year in order to sustain an office of this size.

$50,537,500 x .04 = $2,021,480

In excess of $50,000,000 in construction projects per year – every year!

** To look at it another way, you need to collect:

$2,021,500 ÷ 12 = $168,458/month
$2,021,500 ÷ 52 = $38,875/week
$2,021,500 ÷ 260 = $7,775/work day

FEES AND PRODUCTION COSTS

Fees and Production Costs

Percent of Construction Cost Method

Assume a project that has approximately $12,000,000 in construction costs (small strip mall) and you quote a design fee based on 4% of the Cost of the Work. How do you budget the total amount of hours that may be spent to design and still remain profitable?

Architect's fee at 4.0% ($12,000,000 x .04)	$480,000
Structural Engineer (± 12.5%)	- 60,000
Mechanical/Electrical Engineer (± 22%)	-105,500
Specification Writer	- 4,000
Coordinating the Engineers (10% of engineers' fees)	- 16,500
Profit (20%)	- 96,000
Left to produce job:	$198,000

$198,000 ÷ 68.44/hour = 2,893 hours

Fees and Production Costs

SD	1 person	8 weeks@40hr	=	320 hours
DD	2 persons	8 weeks@40hr	=	640 hours
CD	3 persons	16 weeks@40hr	=	1,920 hours (120 hours/avg. sheet for 16 weeks. Is this enough?)
BN	1 person	4 weeks@40hr	=	160 hours
CON	¾ person	52 weeks@40hr	=	1,560 hours

4,600 hours required

-2,893 hours budgeted

1,707 hours (over budget!)

Translation = 1,707 x $68.44 = $116,827 loss to the business

Fees and Production Costs

Try increasing the architectural fee to 6.75%

Architect's fee at 6.75% ($12,000,000 x 0.0675)	$ 810,000
Structural Engineer (± 12.5% of $810,000)	- 101,250
Mechanical/Electrical Engineer (± 22% of $810,000)	- 178,200
Specification Writer	- 5,000
Coordinating the Engineers/Consultants (15% of the engineer costs)	- 41,918
Profit of 20% ($810,000 x 0.20)	- 162,000
Left to produce job:	$ 326,132

Fees and Production Costs

SD	1 person	8 weeks@40hr	=	320 hours
DD	2 persons	8 weeks@40hr	=	640 hours
CD	3 persons	16 weeks@40hr	=	1,920 hours (120 hours/avg. sheet for 16 weeks. Is this enough?)
BN	1 person	4 weeks@40hr	=	160 hours
CON	¾ person,	52 weeks@40hr	=	1,560 hours

4,600 hours required

-4,765 hours budgeted

165 hours excess

Translation = 165 x $68.44 = $11,293 cushion

Fees and Production Costs

Try increasing the architectural fee to 6.75%

$326,132 ÷ $68.44 = 4,765 hours budgeted against 4,600 hours required (very close – but you made it)

- Enough with a cushion of 165 hours?
- But now the client may want to bargain on the fees you are charging.
- You may need to give discounts or cut hours, that will eat into the profits you seek to generate on the project.

Try 7.00% or 7.50%. Is this competitive?

- Will that cover you?
- Can you scale back on hours in your initial budget?
- Will the market support the rates?

MARKETING AND FEES

Marketing and Fees

Difference between marketing and selling

- Knows you
- Knows your work
- You were recommended

"Knows you …"

- Widen your circle of acquaintances
- Belong to and become active in organizations
- Be written up in articles, journals, trade magazines, etc.

Difference between marketing and selling

- In the beginning you take any promising job
- Enter competitions for recognition
- Increase professional activities (A.I.A., teaching, lectures, articles, etc.)
- Publicize whatever little you have (good presentation, relation with press, exhibits, agent? etc.)

Marketing and Fees

Difference between marketing and selling

1. Marketing: Cold calls, networking, conventions, professional press, RFQ-RFP, etc.
2. Selling: Presentation (visual material, verbalization), politics

Now you get the client!

- What fee to charge?
- How to get client to sign an agreement?

WHAT OTHER ISSUES?

Other Issues to Settle

The Terms of the Deal:

- What is included and what is not included in your fee?
- When is the fee being paid?
- What to charge for Reimbursable Expenses? Actual cost? Mark-up of 10% or 15%?
- How do you define the Scope of Work?
- Special cases:
  - Limit the number of field visits
  - Limit the amount of shop drawing/submittal review
  - Re-use of drawings for additional phases – copyright licenses, etc.
- What is the form of the agreement (handshake, letter, formal contract)?

Other Issues to Settle

Using Outside Consultants – Engineers/Design Professionals

- What do they charge? (The advantages of long-term relationships)
- What do they include in service (how many visits)?
- What is their rate of pay? Must it be same as yours?
- Same contract conditions as yours
- Insurance
- Settle the terms in writing

QUESTIONS