



Thinking about starting your own A/E firm? A top 10 list of considerations

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As the building industry not only recovers from the Great Recession, but begins to thrive, now is the time for those participants feeling the itch of entrepreneurialism to scratch it (or find out if it is only a bug bite). Most successful businesses, in whatever stage of maturity, develop and follow business or strategic plans. It is especially important to ask and answer certain critical questions before opening the door to a new business.

1. **Business Plan.** The business plan is the play book for the business. A comprehensive plan will describe your internal team, services to be offered and pricing, target market, growth strategy and include a budget. I discuss some aspects of the business plan in more detail below. There are many business plan templates to be found on the web and a nice interactive plan is available for free at sba.gov.
2. **Budget.** Although some businesses start up with clients on board, this is often not the case and even those beginning with client work will need to do the work, bill for the work and wait for those bills to be paid. Prepare a budget including start-up costs and at least the first 12 months of operations (or until the business' projected income covers its expenses, if that is longer) so that you can see what the cash flow will look like and how much money you will need to have saved or borrow to get underway. Figuring out expenses is easy; it is the income side that is difficult. The only advice here is to do your best and revisit this document often so you have a handle on the business' cash needs at all times. On the expense side, do not forget to reserve for income taxes at the business level, if applicable, and develop a plan for payment of personal taxes.
3. **Bank/Financing.** Start a relationship with a business banking officer. Whether or not you need a loan to start your business, cash flow is never predictable for service businesses. You should consider having a line of credit available to cover short-term needs. Additionally, a banking officer will be able to refer you to other professionals such as lawyers and accountants, and many banks offer educational programs to business owners; you should be on the mailing list. Consider whether you will qualify for SBA loans or MWBE financing programs or other related benefits.
4. **Insurance Requirements.** Design professionals may be personally liable for negligent acts, errors and omissions, regardless of whether you are providing services through a limited liability entity, so professional liability coverage is critical. According to Tom Coghlan of Design Insurance Agency, "Make inquiry of your prospective clients about their contractual practices and insurance requirements. You want to be prepared when the first project opportunity comes along. Your client may require coverage be in force upon being awarded the design contract. Professional liability insurers will require coverage during the contract documents phase at the latest, to insure the project design; and clients will require General Liability coverage at the time you do your initial site surveys and construction phase services." Other forms of insurance to consider include health,

disability and life insurance. Coghlan reminds, "The state will require worker's compensation and disability insurance upon your becoming an 'employer.'"

5. Legal/Entity Form. At some point, most businesses will choose to operate as a limited liability entity. Becoming an entity is not necessarily a priority for all start-ups, as it adds a layer of complication to operating the business. For those businesses with multiple owners, it is advisable to establish both an entity and to prepare governing documents for the business in advance of starting up. For sole proprietors, check with an attorney as to when the time is right to establish an entity and remember that both the individual and the entity must comply with licensing requirements in any state in which you do business.

6. Business Development/Choosing Clients. According to Christine Filip, president of Business Development Partners, "The priorities for business development for a start up are: 1. Internet resources: a website set up for search engine optimization, interaction with clients and visitors; social media participation; on-line hosting of webinars/meetings; bulk email distribution of client/contact communications such as Constant Contact, Mail Chimp; 2. Memberships in associations of key clients; 3. Hosting live events such as seminars, conferences and briefings used later as webinars and other distribution; 4. An outsourced PR agent to acquire expert commentary on critical professional issues to establish the firm's stake in their market. These are baseline business development expenses that are often not included as startup costs in a business plan, but always should be." As far as clients go, there are always temptations with a new business to take on problem clients - the clients that don't pay on time or at all, the clients who insist on your starting without a contract or moving forward without signed change orders - or to take on work that is not in your wheelhouse in order to "keep busy." In a word, don't. It is more valuable to spend your time on business development than to work for free or rain trouble down on your new business.

7. Office Space. The variations on office space available, particularly in urban areas, are manifold. Direct leases for your own space will often require a 7-10 year commitment, particularly if the landlord is going to do any work, and a personal guaranty. Subletting space can often be had for shorter terms than a direct lease; consider whether it is beneficial to include in the sublease options and rent rates for after the initial term concludes. Some start-ups are attracted to office suites or co-working spaces, which offer short-term arrangements, space flexibility and, often, administrative business support. In all cases, consider physical presentation of the space to potential clients, special needs like whether your operations require natural light, access to large table surfaces, how and where you are going to keep physical records and any confidentiality concerns.

8. Office Technology and Record Keeping. A bad place but an easy one to skimp on at the outset. Invest in hardware and software for the business that you want to be and are holding yourself out as. Technical software is beyond my scope but buy Quickbooks so that you can keep track of your finances and send out invoices. Set up a document management system and, more importantly, develop guidelines about recordkeeping on your projects. Again, one person on one project is relatively easy, but it is a good time to develop a records management system for when your business has five people working on 20 projects, and beyond.

9. Hiring. Know what you do and what you don't do. Trying to do what you don't know "on the cheap" often becomes costly in terms of time and problems. Coghlan advises, "Seek out design/construction consultants, i.e. legal, accounting, IT, insurance, who are active in the marketplace and who are familiar with the needs of start-up practices." In terms of hiring employees, ease in if you can but do not imperil the service provided by your firm by waiting too long.

Management of people, payroll, taxes and benefits is time consuming and complicated. Many firms start with independent contractors to help both with ministerial office activities and project work. While this solution may seem simple, be very careful that you in fact have independent contractors and not employees as defined by the I.R.S.

10. Enjoy yourself. Entrepreneurs are passionate both about building a business and about what they do. Make sure you are gravitating to the joys and challenges of running your own business, and not simply running away from your current employment circumstances. Advance preparation establishes a strong foundation for a new business. Coghlan sums it up well, "Preparing for these benchmark events at the outset of your new practice will reduce your stress level in complying with these issues and free you to focus on what your clients hired you for in the first place - providing excellent design solutions to their project requirements."

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