

## IN THIS ISSUE

### DI's Most Significant Firms

An Interview with HKS  
CEO Ralph Hawkins

### Pacesetting Commissions

Works on the Board  
and In Progress

### Profits Are on the Rise

Firms Report Record  
Benchmark Results

### Report on the Future NUMBER 190

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8

## Confronting Commoditization

**C**ommodify/commodification: To turn into or treat as a commodity, a product; to make commercial. Commodification also has its basis in the phenomenon of branding: The attempt to link a trademark or distinctive name identifying a product or a manufacturer.

Commoditization is a big, hand-wringing topic that conjures up any number of nuisances in the path of what should be an enjoyable professional practice.

In this era of rampant consumerism, still no one wants to pay more than is necessary for goods and services. [Admit it, dear reader, neither do you. Or me.] Problem is, neither does anyone want to pay even reasonable fees for design and construction services. Not the private sector and certainly not the distrustful public sector.

It is cold comfort to realize that all the professions are experiencing this race to the bottom. We tend not to see the effects of commoditization—nor even feel sympathetic—when lawyers, accountants, and management consultants find they are being squeezed for lower fees by their marketplace. They are far more rewarded for their time, to begin with. But I can tell you that there is much hand-wringing going on across all the business-based professions.

Demand ought to depend on the price of a commodity. A lower price usually raises the number purchased—of a product, that is. Ironically, the amount of design work and construction does not increase when fees overall are reduced. All it

becomes is more of a blood sport, at least to hear certain program managers describe it.

Trying to get away with paying less for more services is not new. An emperor once tried to get the 10 books created and used by the Cumean Sybil to interpret events pertaining to the future of Rome. But he refused to buy them at her price. Each day that he held out, she burned another book—until he finally paid the original amount for the three remaining books.

I am not advocating that you dispatch your seven closest competitors. Still, if a customer can't or won't understand the difference and value between similar competing professional services, then price becomes the only deciding factor.

What is new is the fierce application of commoditization, which has bedeviled manufacturers to professional services—destroying allegiance to old relationships and bifurcating markets into commodity and “endless, mad favoritism” (Paul Goldberger, *Up from Zero*) with nothing in between.

Some firms try to beat the rap by keeping costs way down and efficiency as high as possible while working out profitability issues. One sign of

## TRENDS/STRATEGIES

### Soliciting Readers' Opinions

The MP3 player, digital cameras, Blackberries, the Internet. The last 25 years have seen a myriad of new innovations. We at *DesignIntelligence* are asking you to submit your choices for the most important innovations that have most shaped the profession of architecture in the last 25 years and why you think so. Please fax your comments to 770.209.3778, or email them to [cbutler@di.net](mailto:cbutler@di.net). We look forward to hearing from you.

### Carpet Giant Uses Alternative Fuel Source to Run Plant

Shaw Industries is opening a \$10-million power plant in the carpet capital of the United States, Dalton, Ga., which will be fueled by 16,000 tons of the company's own carpet scraps and 6,000 tons of sawdust from its wood flooring operations.

Shaw has partnered with Siemens Building Technology to perfect the process of converting waste carpet, which, according to Steve Bradfield, Shaw's corporate director of environmental affairs, has not been easy. He cites plastic materials melting the carpet as part of the problem, as well as the conversion process being too toxic to meet air pollution standards.

In this refined process, carpet passes through a shredder and then to a gassifier, which converts the scraps into a synthetic gas. The gas is then pushed through two pollution-controlling processes and is funneled to the factory, where it is burned like a natural gas.

Shaw hopes the new plant will save up to \$2.5 million annually in fuel costs.

### University Raises Millions of Dollars In Research Grants and Contracts

The University of Kentucky (UK) has introduced a \$1.6-billion budget for the 2005 to 2006 fiscal year, a measure that represents an investment in the university and the state designed to conquer challenges and encourage dreams, according to president of the university, Lee Todd Jr. "We are investing especially in our people because this university is only as strong as our faculty and staff," he adds. "They are UK."

UK's faculty is known for assisting future entrepreneurs in improving the way they do business, and the faculty and researchers brought in a record \$2.7 million in grants and contracts during fiscal year 2005, a 15 percent increase over the prior year.

Despite these figures, Todd says, "We will be judged not by the number of research dollars we earn but by how well we use them to attack the health and economic hardships that plague too many Kentuckians for too much of their lives."

this is the increasing number of firms whose drafting work is done in Asia or Mexico, where labor costs for skilled workers is one-tenth of the U.S.

Others respond by differentiating themselves from their competitors so that the clients wouldn't dare impose price constraints. "Got Gehry?" asks the architecture critic of the *Detroit Free Press*.

Are there, in fact, any lessons to be learned from Kimberly-Clark's briskly-selling premium Extra Soft Bathroom Tissue? Or the surprisingly popular \$125/bottle Opus One wine created by a joint venture of the Mondavi and Rothschild wineries?

Still others embrace commoditization. Jim Cramer calls this large zone of professional practice the "sweet spot of commoditization." It seems that there are firms that welcome the automatic fees and clear-cut market conditions.

One other group rebels and, to remain viable and thriving, declares the aughties as a challenging time, professes that things must shift, and then develops new skills and areas of expertise.

The pendulum may, in fact, be swinging, not so much back as in another arc completely. The Aug. 1, 2005, issue of *BusinessWeek* carried a special report on the topic of "Get Creative!" by design editor Bruce Nussbaum. In the face of commoditized and globalized technology and information, Nussbaum writes, which, in turn, causes outsourcing of manufacturing and even the knowledge economy, "creative companies" are starting to use good design to achieve "product differentiation,

decision making, and understanding the consumer experience." Innovation spurred by creativity; isn't that what design firms claim they deliver?

The following discussion about trends, antidotes, and innovation in marketing and management in the wake of commoditization of professional services is based on a panel discussion I was privileged to moderate at the 2005 CEO Conference for Building Design and Construction Management Firms. (*DesignIntelligence* was one of the sponsoring organizations, along with Environmental Financial Consulting Group.)

I challenged five professionals to answer two fundamental questions:

1. How can you make money in a commoditized marketplace?
2. Why are your services worth more?

The speakers included an engineer, a builder, and three architects, one of whom specializes in interiors. They are:

- **Edward A. Bond Jr.**, CEO since 1983 of Bond Brothers, a fourth-generation construction and CM company in Massachusetts.
- **Bob Gramann**, FAIA, president of GBBN Architects, Cincinnati's largest design firm.
- **Gerard F.X. "Guy" Geier**, head of the interiors studio at Fox & Fowle in New York and recently CEO of Vitra, furniture manufacturers.
- **Martin Reiss**, president/CEO of Rolf Jensen Associates of Boston, building code, fire protection, and security engineering consultants.
- **James Timberlake**, FAIA, a founding partner of

Kieran Timberlake of Philadelphia, faculty at the University Pennsylvania, and co-author with Steve Kieran of *refabricating ARCHITECTURE* about the interface between architecture and technology.

ested in understanding why my fee was what it was; rather, Purchasing's job was to get the lowest price from vendors and professionals alike. I was cornered, without an informed economic decision maker to whom to appeal about value versus cost.

### Guy Geier: How to achieve and sustain profitable work

Sure, we bemoan the growing trend toward commoditization of architecture and interior design services. Having recently spent a year in the furniture industry, I can tell you that until you have tried to sell a chair against competition like Knoll, Herman Miller, and Steelcase, you don't know nothin' about commoditization. While furniture manufacturers spend fortunes to differentiate their products from one another, at the end of the day price alone often wins the order.

At least design firms are blessed by the fact that we have differing philosophies of practice and design, people with individual personalities and specialty expertise, and projects that look different from each other. That gives us every opportunity to differentiate ourselves from our competition. But how effective are we at doing so?

At Fox & Fowle we have differentiated ourselves from other firms through technical innovation, holistic design, a collaborative process, and a commitment to sustainability at all scales, as well as "big thinking." We always look at the impact of what we do at the next larger context: transportation infrastructure, urban planning, building design, interior architecture, and furniture design. As a "small" firm of 100 people that does big work, we provide extremely personalized service and thus build close, long-term relationships with our clients.

I take exception to the often-heard assertion that a majority of

**"We tend not to see the effects of commoditization—nor even feel sympathetic—when lawyers, accountants, and management consultants find they are being squeezed for lower fees by their marketplace."**

The following is a summary of the presentations, each with a very different take on commoditization and each containing very different advice.

#### Edward A. Bond, Jr.: Differentiate Yourself

The short answer?  
Commoditization is a mindset;  
value creation is a framework.

When you're already competing with the best-of-class professional service firms, a differentiating factor is no longer what you do, it's the way you do it. Too often, this industry offers its clients great technical solutions and grand innovations but garbage service. What we do attracts clients to us, yet it's the emotional connection that allows clients to stay with us.

When I first started in the construction industry, I had one energy client that provided 90 percent of my revenue. It wasn't long before I heard Death knocking at my door. The icy-cold purchasing agent stated that my price was too high and that, if I wanted to work with them, I'd have to drop my price. "Purchasing" was clearly not inter-

Providing great design and construction is only one part of the formula. You learn fast that having relationships at all corners of a client's firm helps to keep your firm on solid ground. Knowing what's going on in our clients' industry, firm, and also their personal life provides valuable balance and enables us to help them solve their problems. Understanding what they want and knowing what they need adds value.

A collaborative process helps to cement a trusting relationship. We recently worked with a consortium of existing and new clients to develop non-intrusive robotic technology that repairs underground systems. Throughout this development process, we learned more about our clients' pains and concerns than ever before. And, while we were a helpful part of the collaboration, we also developed patented technology that helps build our expertise and position in the marketplace.

We hear people say that "vendors are expendable, but partners are invaluable." Since value is clearly in the mind of the buyers, it's wise to get to know them.

## INTELLIGENT CHOICES

### ArchFest 2005

Sept. 19-24  
Boston  
617.314.7593  
www.archfest.org

### Design for Change

Sept. 23  
Theresa Lang Student and  
Communication Center,  
Parsons School of Design  
55 W. 13th St.  
New York City  
Regular admission \$25, \$10 for students  
212.229.5488  
boxoffice@newschool.edu

### National Preservation Conference

Sept. 27 - Oct. 2  
Hilton Portland and Executive Tower  
921 S.W. Sixth Ave.  
Portland, Ore.  
Various registration prices  
202.588.6092  
<https://www.nthpconference.org/GeneralInfo/>

### The BuildingTeam Summit 2005

Oct. 27-28  
Willard Inter-Continental Hotel  
Washington, D.C.  
Speaker lineup:  
■ Thom Mayne - renowned architect and  
recipient of the 2005 Pritzker  
Architecture Prize  
■ Lou Dobbs - anchor and managing editor  
of CNN's Lou Dobbs Tonight  
■ Dr. Clayton M. Christensen - professor of  
business administration at the Harvard  
Business School  
■ Dr. James Haughey - director of econom-  
ics for Reed Business Research Group  
■ Bret Wilkerson - CEO of Property &  
Portfolio Research  
800.322.6996  
www.buildingteamsummit.com

### 2006 International Builders Show

January 11-14, 2006  
Orange Country Convention Center  
Orlando, Fla.  
www.buildersshow.com  
Colin Powell will be the keynote speaker for  
this event.

### Residential Design 2006

April 5-6, 2006  
Seaport World Trade Center  
Boston  
800.996.3863

mid- to large-sized firms can claim more or less equivalent project delivery expertise. There is a wide range of quality in delivery that, for better or worse, has led to the rise of project management/owner's rep firms that take advantage of our weak process. While these groups may serve a valuable role on projects, they have also put pressure on our fees, thereby driving us toward commoditization. Owners accept that this pressure is justified, and we have only ourselves to blame.

Priorities drive many firms toward commodity status: they want growth more than profitability. For long-term success, we need to be more selective about the projects we do and for whom. We are not the right firm for every project, and every project is not right for us. The need to "feed the machine" can cloud our judgment. Being more selective allows us to structure our fees to the right work and appropriate profits.

Plus, keeping things in perspective limits the proposals submitted under desperate circumstances. Ultimately, isn't the goal to achieve the highest win rate possible on the lowest number of proposals necessary to keep the firm busy and growing at a profitable, sustainable, manageable pace?

### Bob Gramann: How to deal with changin' times

I knew 35 years ago I was in the commodity business when a general contractor in town had a boat named "Change Order No. 1."

In the 1970s the AIA had its fee schedules revoked by the Feds. So we architects dutifully changed,

but the owners and public sector didn't. As a profession, we found ourselves bidding for work at lower margins. The owners wanted more, and we gave it to them.

Now it's 2005. What do I know? Here's what I have learned:

- There can be NO compromise on quality.
- We must increase and develop value.
- Technology is annihilating traditions. Speed + connectivity + communication is an equation that totally changes our offer.
- Aligning resources and opportunities will never change; however, what we make available are our people and their talent.

Our GBBN Architects Asia Initiative has responded to the challenge of value pricing. Over the next 10 years, 50 percent of all the construction on the planet will be in China. Why shouldn't we be interested in that? About 1.3 million folks who are paid very little (compared to us) and who know what they are doing is powerful competition with which to be reckoned.

Here's what we did. GBBN developed a successful strategic partnership with a Chinese architectural firm. There are many opportunities over there to market together. Using our offshore partnership provides significant savings to us. At the same time, we have raised the bar at GBBN as well as at our partner firm through BIM technology, graphics, presentation materials, production, and shared practices and resources.

It's a win arrangement for our clients and a win for GBBN. The alliance provides added value for

clients because speed and schedules that accelerate add up to money saved. Quality service and best practices are not compromised. Finally, [drum roll, please] decreased expenses and labor provide profits for us.

At the same time, the times are changing. The business of design is still about the client and the project but also about crisis management—and we must excel at all three. Going to Asia is not for everyone, but it's fun, challenging, and morale boosting (how many of your interns travel to Asia?).

We believe this approach is indeed the "tip of the futureberg"—and the time to maximize its potential is here.

#### Mickey Reiss: What Niche Players Must Do

We're in a niche market that no longer buffers us.

When we started 36 years ago, the challenge was educating clients about the value of our new kind of services. When I joined company 12 years ago, there was already some competition—but mostly from former RJA staff and an occasional new college graduate.

Today, we have 240 employees, and more than 85 percent of our clients are repeat. Still, there is a clear need to demonstrate our value to differentiate us from the competition.

This is our strategy:

- **Expand locations.** We have opened nine new domestic offices for a total of 15. Strategic alliances around the world enable us to serve our clients wherever they go. For

instance, we added a Shanghai office a year and a half ago. We started in China 12 years ago, and I have made multiple trips each year to develop relationships with the national fire service (a military structure) to help clients obtain "equivalencies" to restrictive, prescriptive codes.

- **Broaden services.** We added an integrated fire/security subsidiary [SAKO] to code consulting and design.

**"We need a new vision of process. Along with architects, the vision must include those who own and use architecture, those who assemble buildings, and those who engineer and develop the new products that become our architecture."**

- **Shape industry practices.** We help develop building and fire codes and standards by participating in more than 50 NFPA technical committees and ICC development committees. We pay for this participation because we do not work for manufacturers or trade associations; this avoids any perception of conflict of interest.
- **Strengthen our reputation.** We do the difficult projects. And we have a strong peer review process in place for technical review on all solutions.

In the long run, there are three keys to providing value-added service: relationships, relationships, relationships. Nonetheless, we occasionally offer limited services at what could be construed as a commoditized price. We do this for certain clients who provide us with primarily value-added work or for a new client that has the potential of becoming a long-term relationship. The only risk in doing this is not the reduced fees, but in having our staff believe that we do commodity work.

#### James Timberlake: Consider the situation from a completely different perspective

*"Art and commodity, once the double soul of architecture, have now split and succumbed to specialization. Choose your world."*

—refabricating ARCHITECTURE: How Manufacturing Methodologies Are Poised to Transform Building Construction (McGrawHill, 2003)

This panel has given ways to deal with commoditization. But the problem is elsewhere. Architecture now resides in the 21st century; our methods of making architecture and realizing it, however, reside in the 20th century or even in the 15th century and at times even before Christ.

We represent architecture generally two dimensionally while technology has given us the ability to visualize it three dimensionally, accurately, and completely. Rather than treating each building as a prototype, which in effect it is, we can experience it before we even build it—as other industries do with objects more complex and larger than much of architecture.

Brunelleschi defined himself as a master builder. He was architect and engineer of the Duomo, material scientist for the brick in the vaulting of the dome, and the builder who organized and directed the work to complete the building. We, on the other hand, have given away activities that we don't define as being in the direct

## TRANSITIONS

**David Mourning**, president of **IA Interior Architects**, has been named the 2005 **Corporate Real Estate Service Provider of the Year** by **CoreNet Global**.

**Allevato Architects** has hired **Holly Vaillancourt** as a project manager.

**Richard Solomon**, leader of the **Graham Foundation for Advanced Studies in the Fine Arts**, died July 14 at the age of 62. His foundation is known for funding unconventional projects, and last year, it sponsored a contest to create ideas for Chicago's lake-front.

**Leo V. Mendez Jr.** has joined as a senior designer on **DFD CornoyerHedrick's** retail team. His specialties include historic preservation, urban planning, and commercial projects.

**Siemasko + Verbridge** welcome **Christine Finn**, **Mary O'Hare**, **Brian Stein**, **Karl Damitz**, and **Philip Crosscup** as project managers; **Eric Servies** as a drafter; and **Amanda Greaves**, **Beth Smithson**, **Susan Kotwas** as interior designers.

**Lockwood, Andrews & Newnam Inc.**, in Houston, has changed its name to its parent company, **Leo A. Daly**, to coordinate with the firm's other offices. The Houston office will cover projects in higher education, aviation, and sports and assembly.

**Nashawtuc Architects** has named **William Dickinson** a senior associate and has named **Nancy Dickinson** and **Joshua Bath** associates.

**Christopher Ingersoll**, **Randolph Meiklejohn**, and **Mark Schatz** have been named principals with **Schwartz/Silver Architects**.

The 2005 recipient of the **BSA Award of Honor**, **Joan Goody**, a principal with **Goody Clancy**, has also served as long-time chair of the **Boston Civic Design Commission**. The award recognizes extraordinary contributions to the profession, and Goody will receive it at a reception in the fall.

Architect **Rob Wellington Quigley**, who opened his own firm in California in 1994, received the **2005 Maybeck Award** from the **American Institute of Architects**, **California Council**. Quigley's work has focused on housing the working poor.

service of pure design and thus find ourselves increasingly at the periphery of the building process rather than at the center. Our purpose at KieranTimberlake is to rectify this situation.

We need a new vision of process. Along with architects, the vision must include those who own and use architecture, those who assemble buildings, and those who engi-

hoped for the opportunity to mass customize; however, he was truly enamored of mass production. Mass production was all about making things in quantity, while mass customization does not depend upon quantity to be cost effective.

Our clients are insisting on change. It is no longer acceptable to report year after year that

## What to ask yourself about commoditization

- Which of your firm's services are most vulnerable to commoditization?
- Have you explored ways around public procurement fee policies?
- What have you found is the role of the program managers/owners reps in creating this situation?
- Does commoditization also affect design/build?
- Is becoming a design icon a solution, or is it just as bad a place to be?
- What have you considered doing to hold onto your clients and break this cycle? Is the "cost to serve" too high in your current marketplaces?
- Would you consider globalized documents preparation? Is this a problem or a blessing?
- Is LEED Certification a way to differentiate your firm, or yet another path to commoditization?
- What is the value of your firm's leaders in differentiating the firm from its competition?
- What happens to innovation in your discipline and/or industry when commoditization levels the marketplace?
- What would happen if, instead of dropping your fees, you were to raise them?
- Do your clients desire the experience of working with you more than they seek the lowest price?
- Do you wonder whether design competitions aren't commoditization in another guise? Should you participate in these contests?

neer and develop the new products that become our architecture.

The vision of an integrated process, in which a collective intelligence replaces the architect's singular intelligence, must become widespread.

Why can we succeed now, given a century-long legacy of failure and disappointment? What has changed today? Answer: Everything has changed—except architecture and construction.

Mass customization is replacing mass production. Le Corbusier

architecture costs more, takes longer to build, and has to be delivered in lower quality. To avoid becoming irrelevant, we must become the agents of change—that is, master controllers rather than master builders.

Here are some examples of what people have done outside architecture to keep up with progress:

- Embrace "Kaizen" or continuous improvement. This is a hallmark of Toyota, now adopted universally by the global automotive industry and by ISO.
- Adopt "BIM." Building information modeling systems and

software streamline architectural information management (a.k.a. construction documents).

Autodesk and Gehry Technologies are leading the way.

- **Employ collective intelligence vs. singular intelligence.** Mies hugged his high-rise to take singular credit for the vision of the building. But involving the general contractor, the engineer, and the materials scientist, and the product engineer in the process will lead to even greater vision, greater architecture, and higher-quality building products.
- **Oppose the premise of AIA standard contract.** We reject the notion that we cannot talk about construction with those building our buildings. After all, we are interested in craft, in getting dirt under our fingernails, and in making a better product. How can we idly stand by when we see construction failing before our eyes?
- **Integrate new methods of QA/QC.** Other industries have checks on methodologies and processes that encourage improvement. Why don't we have comparable industry standards for minimum quality assurance and quality control in architecture and construction?

This is how KieranTimberlake has organized to accommodate these advances:

- At 50-60 people, we are a nimble size for small and large projects.
- We have integrated research staff into our practice model.
- Our office is without walls. Every desk, chair, and piece of equipment is on wheels to allow for rapid reconfiguration and realignment. This yields more

space per person than most architectural offices, and it acknowledges that working electronically demands more openness and visual communication to keep people from becoming isolated.

- We have dispensed with the title of Project Manager. Instead, we integrate it into the role of an Associate. This is to allow us to remain a relatively horizontal organization.
- We share people across teams to broaden their training and exposure to projects, increase their ability to be flexible, and to rapidly respond to client needs.
- We collaborate with our engineers, constructors, and related professionals to ensure a broad range of options and solutions.
- We continue to teach. This enables us to influence the education process, remain relevant in the intern development process, and share in available research opportunities.

Note from James Timberlake: If you want to pursue this topic, there's an interesting article in *Canadian Architect* entitled "Detailing Dilemma" that you might also want to read.

#### Joan Capelin: Commoditization and Leadership

You can see how broadly "commoditization" embraces a range of issues and responses and fightin' words.

What interests me about the value of a firm's leader in a changing industry and business climate? A lot.

A recent survey of American corporations determined how much of a company's reputation depends on the

person at the helm. The response: just about 50 percent. Who you are, how you lead, and how you communicate represents fully half of the reputation of your firm!

That 50-percent statistic offers a powerful motivation to evaluate just how compellingly design and construction industry CEOs, presidents, and chairmen set and verbalize the firm's agenda, inspire staff, persuade clients, negotiate, convince journalists to cover or ignore something that happened, and voice strength in times of stress. Stress could be commoditization, client pressures, or whatever you wish to add to the category. No work at all is even more stressful; be grateful for the opposite set of problems.

Obviously, it is essential for you to communicate with clarity. It's tough to run a firm, especially one composed of creative people, but you can't do it well without becoming - even forcing yourself to become—a good communicator.

Leaders will find one easily achievable antidote to commoditization in this principle: "You have to be there; you can't phone it in."

—Joan Capelin

*Joan Capelin is president of Capelin Communications (www.capelin.com). Her work in public relations, marketing, and management strategies has guided firms all across the design and construction industry. Her latest book, Communication by Design, offers principles and relevant anecdotes. Contact Ostberg Press at 800.726.8603 or www.greenway-consulting.com/communication\_by\_design.html*

**"If you aren't hearing the objection that your price is too high, your fees are probably too low, you're leaving potential profits on the table, or you just aren't making enough calls."**

—BusinessWeek.com