

BETTER BUSINESS WORKSHOP

Start Your Own Design Practice Lecture

November 2009



BETTER BUSINESS WORKSHOP

- Setting Up
- Contracts
- Pricing
- USP, Positioning
- Branding
- Marketing



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Setting Up



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Legal Status

–Sole Trader

- Profits are taxed at 42%
- Personally liable for all debts
- Must register as a self-employed person with the Revenue Office

–Partnership

- Partnership agreements
- Exit Strategies

–Limited Company

- Limited liability (personal guarantees)
- More established image
- Profits are taxed at the corporate rate of 12.5%
- Directors are paid salaries and pay PAYE
- Limited companies can be bought off the shelf or set-up from scratch



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Trading Name

- Unless your trading under your own name you will need to register your trading name with the Companies Registration Office.
- Your trading name may differ from the registered name of a limited company. All legal documents must bear registered name of limited company and not trading name.

Insurance

- Professional consultants are advised to take out Professional Indemnity insurance. This form of insurance offers you cover for claims brought against you due to your professional negligence or that of your staff.
- Members of the IA can avail of preferential insurance rates from www.arachas.ie



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VAT

- You must register for VAT if you earn over €37,500 per annum as a service provider and €75,00 as a supplier of goods. But you can choose to register for VAT even if you earn less than that.
- The benefit of registering for VAT is that you get to claim all of the VAT back on your purchases and on Diesel, which can be quite substantial.
- The downside to registering for VAT is the additional paperwork involved and the fact that you must add 21.5% to your fee. This 21.5% is not an issue for commercial client because they can claim it back but if your target market is the residential sector and your competitors aren't registered being registered for VAT you will be making your fee less competitive.
- Your trading name may differ from the registered name of a limited company. All legal documents must bear registered name of limited company and not trading name.



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Practice Guidelines

- The best source of information on how to run a design practice is currently available in the RIAI Practice Guidebook. This book can be purchased at the RIAI office at 8 Merrion Square, Dublin 2.



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Contracts



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Contracts

–A contract is made up of three parts,

- The Signed Agreement
- the Scope of Services
- the Terms and Conditions

–The Scope of Services should be specific and detail exactly what you have undertaken to do. You only have to execute what is defined in your Scope of Service.

–Your Terms and Conditions determine how the service will be executed and what will happen if a problem arises.

–When dealing with contracts between professionals and the public, the public is deemed to be totally ignorant of the professionals trade.

–Once you take on a task, even if it wasn't specified in your Scope of Services you are deemed to be responsible for the outcome of that task.



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Contracts

–If you are supplying something for a project, i.e. buying it with your own money, you become responsible for it's delivery, fitness for purpose, etc.

–If your contract states that you will advise the client of any additional fees before you incur you must stick to that promise. If do incur additional fees without the client's prior consent you may be able to negotiate payment but it is at the client's discretion.



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Credit Terms

- Credit Terms need to suit your market, your expertise and your business model
- Retainers on signing of contracts. Graphic designers typically ask for 30-50%
- Timing of Invoices – by stage or monthly
- Payment on receipt of drawings (COD) or a monthly retainer over the life of the project
- Late payment clauses
- Expenses



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Pricing



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Pricing Strategies

–% construction cost

- Architects use to charge 6-10% of the fit-out cost or 1.75 of the total build cost. Refer to the [RIAI's guide to construction costs](#)

–% approved budget

–Lump sum

–Hourly rate

–Hourly rate with cap

–€per sq foot

–Royalty

–Performance / Success Fees

–Combination of the above



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Pricing – secret survey

A secret survey revealed that these are the hourly rates being charged by people in the room.

€50 plus VAT

€60 plus VAT

€70 plus VAT

€75 plus VAT

€75 plus VAT

€90 plus VAT + 5-10% commission on sub-contractors

€90 - €110 plus VAT

€95 plus VAT + some commission

€80 plus VAT + some commission

€87 per hour

€100 plus VAT

€100 plus VAT

€100 plus VAT

€100 plus VAT + commission

€120 plus VAT

€120 plus VAT + commission

€120 plus VAT + 20% commission

€120 plus VAT



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Pricing Strategies

- Fee negotiation is an exercise in risk allocation.
- The least risky pricing strategy is to get paid by the hour.
 - This is either done by quoting an hourly rate or by giving an estimate of the total number of hours likely to be incurred. Estimates should be kept in the 50 – 100% range until the scope of the project and your service has been fully defined.
- The next level of risk involves quoting a fixed fee for the portion of work that you have direct control over, i.e. producing drawings etc.
 - Any fixed fee is based on certain assumptions, i.e. form of procurement, location of project team meetings etc. You should state these assumptions clearly at the contract stage and agree to be paid for any additional work arising out of incorrect assumptions or changes to the project scope / project / schedule / brief.



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Pricing Strategies

–The next level of risk in terms of pricing strategy is to quote a ‘fixed fee with extras’ for the entire project.

- As with above you should clarify at the outset the assumptions upon which fee is based and how additional work will be agreed and charged.

- You should arrange to be paid monthly for any stage that is out of your control, otherwise payment will be dependant on the completion of others.

–The riskiest pricing strategy is to quote a fixed fee with for extras for the entire project.

- Current literature indicates that it is virtually impossible to make an fixed fee project profitable once it has started to become unprofitable. Therefore this type of strategy is best suited to established practices quoting on a familiar project type. Because having historical data on similar projects makes it much easier for them to accurately calculate how much the fee is likely to be.

- Risk and reward are interconnected and because this pricing strategy involves a huge amount of risk it should result in much larger fees for a client.



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Pricing

DEFINABLE		IMMEASURABLE
<ul style="list-style-type: none">•Anticipated Expenses•Overheads (staff)•No of Drgs required•No of Mock-ups required•Time required to source FF&E•Time required to revise relevant legislation	<ul style="list-style-type: none">•No of Client meetings required•No of Site Meetings required•No of Revisions required•Level of attention demanded by client•Level of client changes required•Mistakes made by staff	<ul style="list-style-type: none">•Bad Weather•Wet Rot, Dry Rot, Asbestos•Quality of existing building work•Contractor delayed on another site•Mistakes by others•Level of expertise on project team•Performance of third parties



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Working out your Hourly Rate as a Sole Trader

No of working hours in the year = 40 hours x 52 weeks = 2080 hours

Annual leave	5 weeks	= 200 hours
Bank Holidays	10 days	= 80 hours
Sick Days	10 days	= 80 hours
Training	5 days	= 40 hours
Admin	48 days	= 384 hours
Marketing	48 days	= <u>384 hours</u>
		1168 hours

No of billable hours = 2080 – 1168 = 912 hours per year

(Desired income + Fixed & Variable Costs) ÷ No of billable hours = hourly rate

(€75,000 + €25,000) ÷ 912 = €110 per hour



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Working out your Hourly Rate as a Sole Trader

–Remember to allow for

- PRSI
- PAYE
- Savings
- Pension
- Dry Spells
- Fixing mistakes on site



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Expenses - Setting up

- Stationary
- Website Development and Hosting
- Brochure Design and Printing
- Hardware – pc, printers, scanner, photocopier, harddrive
- Software
- Office Furniture
- Office Equipment
- Accountancy Services
- Legal Services
- Membership Fees



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Expenses – Running an Office

- PRSI
- PAYE
- Corporation Tax
- Rent
- Electricity, Heat
- Landline / Broadband
- Mobile
- Waste Charges
- Insurance – PI, Office, Travel
- Stationary – printer cartridges, paper, stationary
- Magazines Website Hosting charges



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Expenses – Running an Office

- Marketing Expenses – Postage, Printing, Advertising,
- Sales Expenses – Travel, Meals
- Training
- Membership Fees
- Trade Show & Conference attendance
- Travel – Fuel, Parking, Travel Expenses
- Fabric Books
- Accountancy Services
- Legal Services
- Photography Services
- IT Services – support, back-up services



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Pricing

–There is no right price.

–When people can't evaluate the quality of something they use other indicators such as price as guide but everyone evaluates price differently

–100% perfect requires 50% more work than 90% perfect. Often clients don't want to pay for perfection.

–80 % of the project should be something so familiar that there is very little margin for error. You can be creative within the other 20% but if you do not know 80% of the job thoroughly experience shows that this project will not be profitable. (Specialisation versus Generalisation)

–Projects are unlikely to get to construction stage. Price to profit at every stage.



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Pricing

- Quality is long remembered after price is forgotten No one remembers the conditions under which a project was done, just that it was done badly by you.
-
- Start-ups commonly think that by being more competitive and busier their low rates will be balanced out higher volume. In reality though this leads to burn out and attracts smaller less sophisticated more demanding clients.
- If you're too busy you're too cheap.
- 20% of customers should complain about your prices.



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Thank you

CPD Evaluation Forms

Photos

CPD Certs for Members

Application Forms for Non-Members



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USP & Positioning



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USP & Positioning

- USP and positioning are one in the same. They answer the question ‘why should I hire you?’ The answer needs to be unique and it needs to be something that your target market values.
- Value is not a position If good value is the first thing you communicate you won’t be effective If good value is your best position, improve your service.
- Your position is relative, it is dependant on who you are competing against
- Don’t be in the middle. There are a lot of people in the middle and if you’re there too you’re competing with a lot of people.
- Not having a position makes it difficult to filter customers and manage customer expectations.
- Your USP or position is not what gets you the sale, it’s what gets you the meeting. When selling chose a position that will reposition your competitors, then move a step back toward the middle to clinch the sale.

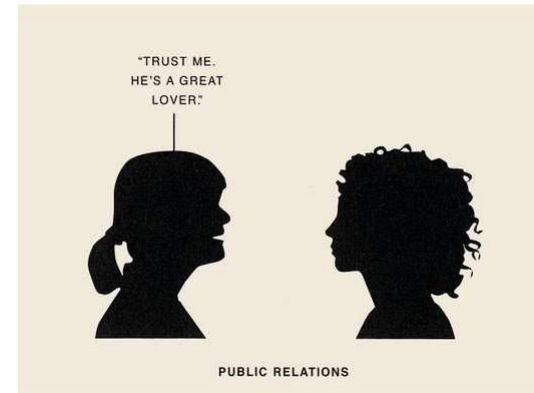


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Branding



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Branding

- A brand is a manifestation of your USP / position.
- A service is a promise and building a brand builds your promise
- People hear what they see
- Practices with a strong brand can charge a premium
- A strong brand has value that can be sold or leveraged



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Marketing



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Marketing

–Marketing is the process of building a relationship between the right client and the right firm.

–Marketing is like jam the wider you spread it the thinner it gets. To be successful marketing should be focused and personalised.

–Marketing is seduction. Clients are acquired one at a time.

–Boasting doesn't sell. Marketing works best when you demonstrate not assert.

–Most work comes to a designer through referrals but not everyone is a good referrer. Make sure your contact sphere includes good referrers and look after them.



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Marketing

–The best Return on investment (ROI) is to market to existing customers about a known need, the second best ROI is to market to existing customers about an unknown need. The worst ROI is to market to prospects about an unknown need.

–Do it over and over again. You should be touching base with your client list at least every 3 months.

–Read ‘Get Clients Now’ by C.J. Hayden



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PR



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PR

- List 4 publications read by your target market
- Select 4 journalists who right for these publications and start developing a relationship with them.
 - Make their job easier (become their go-to person for any information on the industry)
 - Make them look good in front of their editor.
 - Always be available for comment and be able to reply to requests for information with 24 hours.
- Issue appropriate press releases regularly
 - Include facts and figures where possible
 - Write press releases with the reader in mind, what are they going to find interesting.
 - You're more likely to be printed in a magazine if you offer them exclusivity. So rather than emailing a press release to all 4 journalists on your list, phone the most appropriate journalist for the article and offer him/her exclusivity. If they're not interested move on to the next journalist on your list.
- Accompany press releases with professionally taken photographs.



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Becoming an Expert – Tim Ferris

- Join 3 trade organisations with official sounding names
- Research the 3 top-selling books on your topic and summarise on one page
- Give a free 1-3 hour seminar at the closest well-know university
- Give a free 1-3 hour seminar at two well-know big companies. Record for future use.
- Write 1-2 articles for most respected trade magazines or offer to interview a known expert.
- Join websites where journalists source experts for articles



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Customers



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The Right Customer Mix

- Hostile / Needy clients drain resources.
- It costs 5 – 10 times more to get a new client than to maintain an existing one.
- You cannot afford to give excellent service to all your customers. Not all customers are equal.
- Who are you're most profitable clients?
- Which clients refer you on to others?
- Suggest that concepts are only shown to those at the briefing meeting
- If things go too well, client is unappreciative of service



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The Right Customer Mix

- If things go too well, client is unappreciative of service
- Counseling services are as important as technical skills.
- Satisfaction = perfection – expectation
- Read ‘Strategic Customer Care’ by Price Waterhouse Cooper and ‘Perfect Customer Care’ by Ted Johns



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Client Types

–A good client

- Never asks you to do speculative work
- Has a well defined objective, budgets and timeframes
- Is organised and efficient
- Gives you enough time to get the job done well
- Demands great work and can recognise it
- Doesn't nit pick
- Is consistent with feedback
- States what is wrong clearly
- Appreciates your talent and efforts
- Pays promptly



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Client Types, cont.

–‘Help me’ Clients: These customers are involved in construction for the first and possibly only time. They are normally very naïve of construction methods and emotional involved in the project. Their lack of knowledge often results in a high level of stress and consultants need to continually reassure them that they are trustworthy and doing a good job.

–‘Teach me’ Clients: These customers have a strong interest in interiors and want to be heavily involved in every aspect of the project. They often have very fixed ideas on the ‘correct’ concept and are more interested in soaking up your inside knowledge of the industry than your design ideas. This client type may take full credit for the design and so can be a poor source of referrals. They demand a lot of time as they attempt to educate themselves as pseudo professionals and are typically a poor source of future work.

–‘Do it’ Clients: This client type is often a member a large organization. Although this type of client typically has a high level of relevant knowledge he/she needs to cover his back and so demands a lot of support. Typically with this type of client works proposals, requests for information and invoices may have to go through many layers before



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Client Types, cont.

–before approval is given. This inevitably slows down the whole design and construction process and so is only appropriate on well planned projects with enough site time to allow answers to filter down.

–‘Give me’ Clients: Clients in this category have little interest in construction or design per se. To them it is simply a means to an end. They typically require little support but demand a high level of expertise from advisors. Because this client is often involved in construction rarely they won’t be interested in developing a relationship and won’t be a great source of future work.

–‘Get on with it’ Client: This type of client is knowledgeable and confident. S/he does not need support and can articulate his / her requirements clearly. They expect a high level of initiative from their advisers and are not slow to voice their annoyance at poor performance.



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Elements to consider when determining Fees

- Scope of service
- Anticipated expenses
- Current and anticipated overheads
- No of staff / external consultants required
- Existing office schedule
- Project location
- No of meetings with client / consultants / contractors
- Research times required on relevant codes / legislation
- Research time for products
- Extent of bespoke items
- Extent of design drawings required
- Extent of sample rooms required



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Factors that impact the profitability of a Job

–Tight budget

- Low-end suppliers often don't provide samples or brochures and don't hire experienced sales staff

–Unreasonably Tight Schedule

- Drawings / Materials need to be couriered
- Staff need to be paid overtime to make last minute amendments
- Higher potential for mistakes as decisions are made quickly

–Interrupted work process

- Additional time required to constantly reorganise schedule
- Additional time required in getting suppliers / trades people to re-fresh lapsed quotes



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Factors that impact the profitability of a Job

- Complicated approval process
 - Multiple presentation meetings with conflicting feedback
- Scope Creep
 - Often due to a vague brief initially
- Type of Procurement Process
 - Tender process requires more drawings and time
 - Surprises during construction phase
 - Dry Rot, woodworm, asbestos



–Type of Construction Process

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The Harsh Reality

- Not everyone you deal with will be professional, solvent and honest and sometimes you won't get paid
- Most people won't tell you that they don't want to hire you
- Most projects won't get constructed
- Most projects don't get built as you designed so be careful taking on unprofitable jobs for the sake of your portfolio
- Most people find construction stress full and they'll look for someone to take that stress out on even if it's not your fault or responsibility
- Working for yourself is extremely lonely



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The Harsh Reality

- You cannot control the behaviour of others so make sure your not relying on other people to be efficient or reliable.
- Those who work in rural areas often have to
 - work harder for less money.
 - be more flexible & sometimes less professional
 - cast their net wider.
 - focus their efforts on client education not on creativity.



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Biography of Lecturer

- 1996 Graduated from DIT as Spatial Designer
- 1996 – 2002 Worked in Architectural practices as Interior Designer
- 2002 – to date Running own interior architectural practice, EDGE
- 2002 – 2003 Lecturer at DID
- 2003 – 2004 Editor of 'Forma' magazine
- 2004 Completed Design Ireland Skillsnet's 'Business Management for Designers' Programme
- 2005 Completed Griffith College's 'Accounting for Designers'
- 2006 Committee member of Design Ireland Skillsnet
- 2010 Completed a Masters in Professional Design Practice with DIT
- Currently Publishing the Digital Design Magazine daedalreview.com
- Currently Committee member of the IA

