

# Driving Value In Your A/E Firm

Deltek Industry Days – 2019

As advisors to design professionals, we are often asked by owners and key executives, “How can I make my firm more valuable?” While value is in the eye of the beholder, there are some things you can do to make your firm more valuable to whomever you eventually transition your firm, whether that transition is an internal or external one. We, at Rusk O’Brien Gido + Partners, call these things “value levers” because the more focus and action you place on them (pressure), the more you drive up the value of your firm.

Simply put, firms with exceptional value are those that are scalable, profitable, and have longevity. Let’s define those terms and look at the value levers that drive them. Please note that the value levers of a particular category can also be a value driver in the other two.

**Scalability: the ability of an organization to increase its relative production capacity to respond to present and future economic conditions proactively.** Investors place a value premium on firms that can show solid and stable growth. The exceptionally valuable firms demonstrate the ability to grow revenues in times of economic expansion and increase market share in times of economic contraction. Here are just a few value levers you can use to drive scalability:

- Bullpen – make sure you have a list of people you can hire if the need arises.
- Marketing – too often, firms market only when they need the work. This practice, however, just replaces the completed work and often results in a “sawtooth” picture of revenue where one period looks great and the next not so good.
- Project Management Capacity – make sure you have the systems, processes and people that can handle increased business without sacrificing quality and profitability.
- Credit Capacity – growth sucks up cash. Make sure you have the funds to fuel this growth which can be existing cash, the ability to temporarily draw on a line of credit or take out a loan.

**Profitability: the ability of an organization to consistently and predictably generate a return to its investors of time and money.** Would you rather invest in a firm that had profitability one year of 5%, then 35% the next, and then back down to 10%? Or would you rather invest in one that achieved 16% to 17% consistently? They are both achieving roughly the same profitability, but one has considerably more risk and the other shows consistency and stability. Here are some value levers you can use to get consistently better returns for your firm.

- Timely and Accurate Financial Reporting – better decisions equals better results. You can only make better decisions if you have the information to base them on. In this regard, they must be simple, concise and actionable. Furthermore, they must be accrual-based as the cash-basis format is by nature not timely and not accurate.
- Processes for Reducing Risk and Increasing Efficiency – as an owner and leader, you should be relentlessly and mercilessly driving unnecessary risk and inefficiency out of your organization. One of the best ways to do this is by developing processes and systems that can be repeated with accuracy and simplicity and that are not dependent on certain personnel.
- Pricing – increase your prices. There is no greater or easier way to increase profitability than by raising prices. Any increase in price drops straight to the bottom line without any additional cost associated with it.



**Carl von Hake, CPA**  
Associate Principal  
ROG+ Partners

Carl specializes in corporate financial advisory services including strategic business planning, financing strategies, operational effectiveness, ownership transition, stock structuring, corporate governance and profit enhancement. He leads ROG’s West Coast office and brings the unique perspective of a past business owner to ROG’s team.

**Contact Carl**  
cvonhake@rog-partners.com  
p: 800.543.5259 x506  
m: 702.374.3612

# Driving Value In Your A/E Firm

Deltek Industry Days – 2019

**Longevity: the ability of an organization to last.** Said another way, a valuable organization is one that can not only survive the inevitable ups and downs, challenges and changes in business but can flourish despite those. Design firms face particular challenges in this regard and here are some ideas for you to consider.

- Bench Strength – organizations with a team of capable leaders are more valuable than ones in which all the knowledge, client relationships and rain-making capabilities are held by one person.
- Diversification – in the pursuit of revenue and “that big project”, it can be quite tempting to allow revenue to be concentrated in a single client or client type. Whether you are a new or an established firm, make sure that growth is in new client and project types that increase your diversification and not your concentrations. A good rule of thumb is that no more than 15% of your revenue should come from a single client or client type.

Of course, we’ve only scratched the surface on the ways to make your firm more valuable. There are many value levers that you can use, depending on your situation. The important thing is that you begin to use these levers intentionally to increase value for your firm or the next owner. If you would like to discuss or further explore how you can increase the value of your firm, please give me a call.

## Reflection & Follow-up

### Have You Had A Valuation of Your Firm Done?

- An important part of your exit strategy and succession planning
- Compare the valuation to the formula in your buy-sell agreement

### What Can You Do as a Financial Executive and/or Leader in Your Firm?

- Use Deltek to manage and report on these value levers.
- Be the champion of processes, systems and reports that increase firm value
- Create a culture within your firm that places importance on driving value
- Be the trusted advisor on your executive team