Part I: Starting an Interior Design Business
Chapter 1:
The Beginning

Interior design is a unique profession, one that flourishes on passion and innovation. It is a profession founded on variety, offering projects of all scopes and sizes, from intimate residential spaces to large-scale commercial ventures to the latest hotels and restaurants or state-of-the-art medical facilities, to name but a few. What’s more, when interior designers leave for home at the end of the workday, they hardly leave their work at the office, as our everyday environments—our homes, grocery stores, doctor’s offices, restaurants—are designed in some way, by someone. Should you seek them, inspiration and possibility abound at every turn.

Included in the realm of possibility are the myriad ways a designer can choose to operate. A professional interior designer may work within a larger firm, operate as a design consultant, or log hours as a retailer, educator, researcher, historian, critic, or journalist, or as a product and manufacturers’ representative, among other options. Many interior designers, however, choose at some point to start their own firm. In fact, while large design firms often appear in the headlines, it is small firms with fewer than five employees that make up the bulk of the industry.

Why Do You Want to Have Your Own Business?

As many practicing designers come to learn, it is one thing to be inspired and another to be profitable. To be successful, interior designers must learn to balance unbridled creativity with practicality and professionalism. As exciting as the design field is, it is a competitive industry—and today, as in many industries, business savvy is just as essential as talent.
When it comes to the desire to hang one’s own shingle, interior designers are not alone. Many do it. According to the National Foundation for Independent Business (NFIB), small businesses represent over 99 percent of all employers in America, with about 24 million such businesses in the United States alone.\(^1\) With this scope, small business creates 60–80 percent of all new jobs in America.\(^2\) Other interesting statistics:

- Small businesses generate more than 50 percent of the American nonfarm private gross domestic product (GDP).\(^3\)
- The United States has almost 6 million small employers, 90 percent of which employ fewer than 20 people.\(^4\)
- About 6–7 percent of the U.S. population is in the process of starting a business at any given time.\(^5\)
- About 53 percent of new small businesses begin in the home with less than $10,000. Many start with borrowed capital and leased or used equipment. About 3 percent are franchises.\(^6\)

Within this realm, interior design practices are an ever-growing segment. In its 2007 report *The Interior Design Profession: Facts and Figures*, the American Society of Interior Designers (ASID) found that between 2000 and 2005—a mere five years—the number of employed interior designers grew by more than 20,000, and from 2002 to 2006, the total number of interior design firms increased by 450.

In 2002 the U.S. Census Bureau classified interior design as an independent profession for the first time, separate from design in general (which also includes floral design, ceramic design, and graphic design). Under these new classifications, the Bureau of Labor Statistics estimated that in 2004 there were 65,000 interior designers employed in the United States, with about three in ten of those self-employed. However, ASID notes that privately conducted studies raise that overall total as high as 96,000 or even 112,000, depending on how you define a practicing interior designer.

### Will You Make the Cut?

Success in business is never automatic, nor is it strictly based on luck—although a little luck never hurts. Success depends primarily on an owner’s foresight and organization. Yet even then there are no guarantees.

Starting a small business is always risky, and the chance of success is slim. According to the U.S. Small Business Administration, roughly 50 percent of small businesses fail within the first five years. In his book *Small Business Management*, Michael Ames gives the following reasons for small business failure: lack of experience, insufficient capital or money, poor location, poor inventory management, overinvestment in fixed assets, poor credit arrangements, personal use of business funds, and/or unexpected growth.
Another business writer, Gustav Berle, added two more reasons in *The Do-It-Yourself Business Book*: competition and low sales. Such odds might, and perhaps should, give the uninitiated pause. Underestimating the difficulty of starting a business is one of the biggest obstacles entrepreneurs face. However, success is achievable for those who are patient and willing to work hard, and who take all the necessary steps. It’s true that there are many reasons not to start a business. But for the right person, the advantages of business ownership far outweigh the risks. You will be your own boss. Hard work and long hours directly benefit you, rather than increasing profits for someone else. Earning and growth potential are far greater. A new venture is as exciting as it is risky. Running a business provides endless challenge and opportunities for learning.

**Do You Have What It Takes?**

Is entrepreneurship for you? Consider the following advice from the U.S. Small Business Association⁷: In business, there are no guarantees. There is simply no way to eliminate all the risks associated with starting a small business—but you can improve your chances of success with good planning, preparation, and insight. Start by evaluating your strengths and weaknesses as a potential owner and manager of a small business. Carefully consider each of the following questions:

* Are you a self-starter? It will be entirely up to you to develop projects, organize your time, and follow through on details.

* How well do you get along with different personalities? Business owners need to develop working relationships with a variety of people, including customers, vendors, staff, bankers, and professionals such as lawyers, accountants, and consultants. Can you deal with a demanding client, an unreliable vendor, or a cranky receptionist if your business interests demand it?

* How good are you at making decisions? Small business owners are required to make decisions constantly—often quickly, independently, and under pressure.

* Do you have the physical and emotional stamina to run a business? Business ownership can be exciting, but it’s also a lot of work. Can you face six or seven twelve-hour workdays every week?

* How well do you plan and organize? Research indicates that poor planning is responsible for most business failures. Good organization of financials, inventory, schedules, and production can help you avoid many pitfalls.

* Is your drive strong enough? Running a business can wear you down emotionally. Some business owners burn out quickly from having to carry all the responsibility for the success of their business on their own shoulders. Strong motivation will help you survive slowdowns and periods of burnout.
How will the business affect your family? The first few years of business startup can be hard on family life. It’s important for family members to know what to expect and for you to be able to trust that they will support you during this time. There also may be financial difficulties until the business becomes profitable, which could take months or years. You may have to adjust to a lower standard of living or put family assets at risk in the short term.

The ABCs of Planning

Although advice and anecdotes abound on things to consider when weighing the idea of opening your own interior design practice, there is consensus on the necessity of one aspect: planning. In a very basic overview, the necessary planning can be broken down into three realms: business planning, strategic planning, and financial planning. Financial planning is straightforward in its name, but business planning and strategic planning may be a little more confusing, as their exact definitions vary.

Let’s take a moment to focus on business planning. Myriad resources are available for designers today that not only offer in-depth advice on how to structure a business plan but also provide templates to get you started. Typically, a plan at minimum contains an introduction that should entice readers to want to learn more about your specific business. This is often followed by an industry analysis that shows how your venture fits into the competitive landscape, a resume of the founder’s (or founders’) business accomplishments, and marketing and financial plans.

Strategic planning, by nature, is much more subjective and less formulaic, containing quantifiable, measurable steps specific to an individual firm’s success.

Business Planning vs. Strategic Planning: Johnson Consulting Services

Johnson Consulting Services, founded by Jill Johnson in 1988, works with professional services companies, impacting business decisions valued in excess of half a billion dollars. The firm’s client base of corporations, government agencies, and nonprofit organizations spans twenty-one states in the United States, as well as Europe and Asia. Bringing strong analytical and comprehensive research skills, objectivity, candor, and integrity to each client’s project allows Johnson’s firm to play an instrumental role in the clients’ organizational and financial success.

There seems to be considerable confusion about business planning, strategic planning, and marketing plans in the business world. It is not uncommon to have all three terms used interchangeably in the course of a discussion. With this in mind, Jill Johnson, founder of Johnson Consulting Services (JCS) in Minneapolis, Minnesota, defines the differences.

Business planning is about the functional areas of business: operations, market analysis, competition,
pricing methodologies, and marketing mechanisms to reach customers. **Strategic planning** defines the vision, mission, and organizational values of the company, and develops a plan that will enable the company to move in those specifically defined directions.

The greatest difference between a strategic plan and a business plan is that the strategic plan will include performance indicators in the form of quantifiable measures. These indicators can be used as a scorecard to determine how well the firm is doing in achieving its vision, mission, goals, and objectives.

Business plans are usually prepared by those seeking funding from banks or investors to start their business, but that is not necessarily the best approach. According to Johnson, everyone going into business, whether they seek funding or not, should engage in business planning and research as a means for improving the business’s chances of success. Preparing a business plan requires a significant amount of research, for example, into where a business will be located. Will it be in a home office, a storefront, or a showroom? Will there be one location or multiple locations? Potential competitors must also be researched, and target markets must be identified. Financials must be addressed: What is the cost of setting up the business and running it until a revenue stream is created? Cash management must be examined and, in conjunction, decisions made on who will represent the company’s support team for banking, legal, and accounting expertise.

A good business plan should be grounded in reality. If a plan’s scope is too broad, it extends beyond what is realistic for owners to accomplish and will likely fail by the wayside rather than serve as a guiding document upon which to build a solid business. A business plan should be revisited annually and revised in depth every three years or so to allow owners to reevaluate staffing, skill sets, locations, and financials as they relate to the original plan.

A strategic plan, on the other hand, defines the long-term vision and mission of the firm, identifying its organizational and cultural styles. While “long-term” can mean different things to different business owners, a strategic plan generally has an outlook of three to five years and comprises specific goals and objectives that move the company forward and are further supported by specific strategies and tactics that formulate the day-to-day operation of the business.

 Unlike a business plan, a strategic plan incorporates quantifiable measures to allow owners to determine performance and success. Attaching measurable, quantifiable achievements like numerical increases in clients or projects makes it easy to determine whether a firm is successful. Attaching time frames to objectives also allows for easy review to assure elements are on track and on time. A good strategic plan creates a road map toward the organization’s vision, providing small, measurable steps and stages to ensure forward motion. For instance, if the plan is to grow the business from a one-person operation to one with multiple designers on staff in numerous locations, strategies might address collaborating with other designers or firms early on to take on larger projects and achieve greater visibility before adding one or two in-house designers at a given point in time. Each strategy may have a number of tactical segments, all of which lead the firm toward that ultimate goal of being a larger entity with multiple locations.

In addition to business and strategic plans, owners should keep several other key factors in mind. First, it is crucial to develop the psychological mindset of a business owner, not just that of a designer. If your education or background has not provided the necessary ownership skills, a company’s plan should also include strategies and funding to strengthen this skill set. Second, new business owners must keep reality in mind. While there is nothing to stop a business owner from growing beyond initial expectations, it is advisable to develop a realistic plan that will successfully get a business to one level before expanding to a higher, more challenging level. Third, owners must think long-term and begin planning their exit from the business from the start.
Thinking Ahead: Peterson-Arce Design Group

B. J. Peterson, FASID, is a long-time member of the interior design profession with forty-four years of practice in a number of capacities: staff designer, sole proprietor, showroom owner, retailer, and partner. In 2000, she entered into partnership with Hugo Arce, forming Peterson-Arce Design Group Inc. in the mid-Wilshire area of Los Angeles, with an auxiliary office in Laguna Beach, California. The firm works on high-end residential remodeling and reconstruction projects in Southern California ranging from small to multimillion-dollar budgets. Peterson has been an active member and fellow of the American Society of Interior Designers, serving as president of her local chapter, on the national board of directors, and as national president from 1992 to 1993. In addition, Peterson was chair of the board of trustees for the ASID Foundation from 2007 to 2008.

Although B. J. Peterson has far more industry experience than many designers in practice today, her introduction to the concept of strategic planning and management did not occur until she began serving on ASID’s national board of directors in 1989. The Society had recently begun using this business management tool in an effort to move forward in an organized, focused manner. Accordingly, Peterson, along with other board members, was indoctrinated into the strategic planning and management process, including environmental scanning. Before long, she found herself using the planning concept for both her personal and business endeavors.

Looking for a way to ease into semiretirement and eventually complete retirement, Peterson used the strategic planning process to help her design a business model that would meet her needs: a small firm with one partner with whom she could build a valuable asset to sell as she eased into retirement.

Hugo Arce had worked with Peterson for some time at her previous design firm, B. J. Peterson Interior Design, and seemed the ideal partner for her plan. Peterson found that she and Arce shared standards of service and business ethics, focusing on a client’s needs-based practice. There was also an age factor—Arce is twenty years younger than Peterson—and a gender-opposite fit. The new partnership not only accorded with Peterson’s ideal structure, it also allowed Peterson and Arce to identify and develop the client base they wanted, creating a very targeted base upon which to build the firm’s value for an eventual sale.

In May 2000 Peterson-Arce Design Group was born, first located on Melrose Place in Los Angeles and later moving to the Miracle Mile in the city’s mid-Wilshire district. The move offered the team an opportunity to open a retail shop, The Home Grown Store, in an area with more affordable rent. The store, opened with a third partner, John Wilson, is another avenue for generating revenue for when Peterson or Arce want to slow down the design practice. On the design firm side, Peterson-Arce has one support person but no plans to add more staff or grow the firm.

From the firm’s start, strategic planning and management has been the rule of order. Because of Peterson’s extensive experience with the strategic planning process, Peterson-Arce Design Group generally does not bring in an outside facilitator to help with its planning; accordingly, Peterson is the partner most responsible for the planning process.

Each January or February the partners meet at Peterson’s beach house in Laguna Beach to plan for the coming year. Occasionally, their office administrator or an outside facilitator is included, but usually it is just the two partners. The planning session lasts one day, with a few shorter, follow-up meetings that last a couple of hours each held back at the office in L.A. to firm up details. Once a plan is developed, it is reviewed every other month to be sure the firm remains on track. Reviews usually take place during regularly scheduled office meetings. “What is really important is keeping the plan active and not filed away in a drawer somewhere,” says Peterson. “It’s not the planning that is problematic as much as the implementation.”
The typical Peterson-Arce plan includes the firm's vision and mission statements; specific, prioritized goals and objectives; and measurable strategies and tactics through which the firm will achieve its goals for the year. Seldom do Peterson and Arce change course in any major way once the plan is in place, but they understand the need to be ready to make quick changes when big issues—such as changes in the economy or rapidly rising gasoline prices—come along. Peterson believes that it is difficult to plan more than three years out, feeling that “anything beyond gets dicey.” Occasionally, a few issues, like Peterson’s retirement transition, might be planned out further in advance, but most of the focus remains on the current year as well as a year or two out.

As she learned to do through her experience with ASID’s planning processes, Peterson frontloads the firm’s process with environmental scanning of outside influences that may impact the firm. She reads business publications throughout the year, identifying issues that may affect the planning process and the firm’s future. The most significant change she has noticed in the firm since implementing strategic planning is this long-term perspective. “We’re not so focused on day-to-day issues and operations, but rather focused on the big picture and working toward it,” she says. “We planned to have an administrative support person to pick up that end of the business so we could focus and work toward the big-picture goals, and the types of clients and projects we wanted to be developing.” The biggest issue to be faced in the future is identifying a junior partner who, over time and with studious planning, will be positioned to buy out Peterson’s stake in the firm as she moves into retirement. That planning, of course, is already underway.

Thinking Strategically: Carson

Guest Interior Design Services Inc.

Rita Carson Guest, FASID, founder and president of nationally recognized and award-winning Carson Guest Interior Design Services Inc., established her firm in Atlanta in 1984. Since then she has grown from a solo practitioner to managing sixteen employees, with Guest serving as director of design for all projects, which include law offices, corporate offices, institutional, and special residential projects. Guest was the first interior designer registered in the state of Georgia, and also holds interior design licenses in Alabama, Florida, and Washington, D.C. In addition, she was the first interior designer appointed to the Georgia State Board of Architects, a position she held for ten years, and has served in ASID leadership at the national level, holding positions on the national board of directors and serving as national president from 2007 to 2008.

Like other interior designers who have served in leadership positions with the American Society of Interior Designers, Rita Carson Guest was indoctrinated into the strategic planning and management process during her time in service to the organization. For Guest, it was during her 1992–93 term on ASID’s national board of directors that she realized this process could be used to help focus her own firm on planned, measured growth and success.

Prior to the move toward strategic planning and management, the firm had employed business consultants to assist with organization and planning for growth. Thanks to her ASID leadership, however, Guest’s experience in strategic planning and management positioned her to facilitate and manage the strategic plans in-house, without the assistance of external business consultants.

In the early 1990s, an office retreat and inaugural strategic planning session was scheduled in New Orleans to get the process started. At the time, Guest felt the process would be an excellent way to bring the entire team in line with the strategic goals of the firm. Since that initial session, every three years the firm holds a daylong, off-site retreat to work on the strategic plan for the following five years.

Everyone in the firm participates in the process. They take advantage of ASID’s annual environmental scanning report to assess possible outside influences, and use input from individual staff members as a
starting point for the planning session. As the firm’s owner, Guest maintains control of the process, and although it is just a one-day session it is not unusual for her to spend up to forty hours on preparation.

Stating that they should probably devote more time to the process and use it more effectively, Guest feels they could do a better job of measuring and evaluating their progress. But as busy as the firm is, its only measures of success are year-end profits and awards won. Given the turbulent economy of late 2008, Guest is considering scheduling another session to create new goals alongside a process to review how they work through a tough economy. “I believe this will take some of the fear out of everyone’s concerns about what is coming next,” she explains. “We have never laid off one person since I started the firm, and I do not plan to start now.”

Guest believes that a strong plan, revised to meet the current environment, is a great way to start. Although Guest and her team seldom have time to review and revise the plan during the year, they have discussed the creation of a more streamlined process for design.

“Our fees are at the top of the market, and we are finding companies that want to hire us if we will match other firm’s fees,” she says. “Getting people to hire us has always been easy based on our reputation, but getting them to pay top dollar is more difficult.”

To keep the firm in line with its goals, the company’s vision and mission statements, along with its corporate values, were pulled from the strategic plan and framed for display in every office and workstation. This serves as a constant reminder to keep the whole team focused on the firm’s plan, as well as who they are and where they are going. Has Guest seen success in the switch to strategic planning? “Yes,” she says, “by focusing our efforts on excellent design and excellent service, and entering design competitions to validate our success.” She also notes that the process has been a highly effective way to energize her team and give staff members pride in their contributions to the success of the firm, as well as making the firm a desired place to work and giving it a competitive edge by focusing on law office design.

Financial Planning

Another essential item on any entrepreneur’s to-do list is the issue of financial planning. Passion will only get you so far. In the long run, it’s finances that will make or break a business. How will you finance your firm? Will you borrow from friends or family to get started? Apply for a loan? Seek out business partners or silent investors? Apply for government assistance programs? Or simply charge it to Visa or Mastercard? Given the bleak picture of the global financial markets in recent years, saving as much as possible before venturing out on your own is highly recommended.

In considering finances, it’s important to spend some time thinking about how a firm will be officially structured and how that chosen structure will in turn affect not only the business’s profits and debts but also the owner’s personal finances. In a sole proprietorship, for example, all profits earned belong to the owner, but so do all losses. In both an S corporation and a limited liability company (LLC), shareholders receive limited liability protection, and profits and losses are taxed on an individual’s personal tax return. In many states, however, an LLC must be formed by at least two people, while an S corporation requires just one. If there is more than one
owner involved, who will own the firm’s real estate? What will happen financially should one partner in a two-person partnership want to leave? A firm’s financial arrangements may also have direct impact on other certifications, which in turn may affect project opportunities.

Sound Structure: Daroff Design Inc. + DDI Architects PC

Daroff Design Inc. is a women-owned, full-service architecture and interior design firm headquartered in Philadelphia. Founded in 1973 by president and design principal Karen Daroff, the firm also is affiliated with an architectural partner, DDI Architects PC. Daroff Design Inc. specializes in the design of entertainment facilities, including themed hotels, resort properties, casinos, restaurants, and retail facilities, as well as corporate headquarters and conference and training centers. As a professional designer, Daroff was named Designer of the Year in 1990 by Interiors magazine and also has been named one of the Best 50 Women in Business in Pennsylvania by the governor of Pennsylvania.

When award-winning interior designer Karen Daroff first founded her Philadelphia-based interior design practice, Daroff Design Inc., in 1973, the professional landscape was a bit different than it is today. “At that time, architects were not very interested in the practice of interior design,” she recalls. “Interior designers were under pressure to rationalize earning fees, while interior decorators were typically not charging fees but earning a profit on the purchase and resale of the furniture, finishes, and equipment they selected for their clients.” Additional competition came from product manufacturers and their furniture dealers, who were offering free design services to their retail customers, in direct competition with her professional interior design practice.

In setting up her practice, Daroff focused on the programming, planning, and interior design of major corporate headquarters offices and operational facilities. The business quickly expanded to include large corporate conference and training centers, some of which also had adjacent hotels and restaurants. The practice’s work grew even more from these hospitality projects, capitalizing on Daroff’s growing passion to design destination hotels and resorts.

She structured the firm as a Subchapter S entity, which would allow her to plan her tax obligations both personally and corporately. Daroff also deliberately sought certification as a Women’s Business Enterprise (WBE), which requires that at least 51 percent of the certified business be owned or controlled by one or more women who are American citizens or legal resident aliens; whose principal place of business is in the United States; and whose management and daily operations are controlled by one or more of the women owners. Her first certification was in Philadelphia, which also requires that WBE-certified businesses operate within the City of Philadelphia.

One benefit of such certification is that many government departments and agencies are required to give a certain percentage of their purchasing contracts to women-owned businesses. A similar process accommodates minority-owned businesses (MBE). “My interest in the women-owned business certification process began when Philadelphia’s mayor issued an executive order setting aside a certain percentage of all of Philadelphia’s governmental projects for companies owned by women and minorities,” recalls Daroff.

As a 100 percent women-owned firm, Daroff Design Inc. benefited from local, regional, and national WBE certifications, joining project teams around the country where WBE certification was required or desired. Many of Daroff’s national and international corporate clients also began to require project teams to include both WBE and MBE team members and suppliers. “It has been my experience that when these governmental set-asides and/or benchmarks have been
in place, our firm and our WBE peers have been invited to participate on more projects that otherwise might have been assigned 100 percent to the major A&E firms,” Daroff notes.

But not everyone was happy with Daroff’s success. “A few architects began to question my success and wanted to take business away from me by telling clients we were not qualified to do this or that type of project because we could not offer full professional service and could not prepare and sign our client’s project’s permit documents,” she recalls. “They, of course, were not correct in their comments, because from day one I employed talented architects who prepared, signed, and sealed DDI’s drawings for building permits. But I realized that we needed to offer licensed architectural and professional services. At that time, many architectural firms had interior design departments. I thought we needed to have an architectural affiliate.”

Back then and to this date, Daroff Design Inc. teams and collaborates with third-party architects on many of its corporate and hospitality projects. However, licensing for interior designers has more recently added another legal constraint to the practice of interior design on a national basis. What’s more, Pennsylvania has not passed state licensing for interior designers; so, legally, in order to sign and seal permit documents in Pennsylvania (as well as in many other states), the architects functioning as architect-of-record must be majority shareholders in the business and be insured for professional liability.

To address this legal requirement and to provide the full range of service Daroff’s clients were requesting, DDI Architects PC was founded as a licensed architectural entity owned by Daroff’s husband, Jim Rappoport.

In creating DDI Architects, Daroff was careful not to put Daroff Design Inc.’s WBE certification at risk. Legally, a non-WBE-certified entity cannot exert undue control over a certified WBE entity—and, similarly, a nonlicensed person or entity cannot exert undue control over a licensed person or entity. With this in mind, Daroff Design Inc. + DDI Architects PC operates as a partnership, with Daroff owning 100 percent of Daroff Design Inc. and Rappoport, a licensed architect, owning 100 percent of DDI Architects. The two entities practice in close collaboration, with each owner careful to collaborate with, while not unduly influencing, the other.

DDI’s project management processes integrate teams from both entities in a matrix format that incorporates peer review and quality management across the board. The team from DDI Architects frequently tackles the projects’ upfront scope of programming, master planning, code compliance, lease review, test-fit planning, budgeting, and scheduling. Daroff Design Inc.’s interior designers take over during the design activity. Along the way, both entities also oversee consultant relationships, with the architects coordinating with the firm’s engineering consultants and the interior designers coordinating lighting designers, specialty consultants, design builders, and FF&E sources.

For instance, while the architects prepare contract documents for a project’s fit-out, the interior designers prepare drawings and specifications for FF&E. After these sets of documents are done, Daroff Design Inc.’s quality management team reviews the documents for coordination, Rappoport provides peer review, and programs are tested for master planning, code and ADA review, lease compliance, test fit, and the like. After revisions, Rappoport signs and seals all drawings and specifications. In addition, Rappoport and his senior architects conduct ongoing risk management and professional development seminars for all staff.
Establishing Fees: Deciding What You Are Worth

In calculating your financial obligations and potential profits, it is also important to decide up front how you will charge for your services. Long-term success takes money, so what exactly is your work worth? Unfortunately, there is no magic answer or formula to this question. The topic of billing and fees is ever challenging. Each job and client is different, and so too are the fees associated with work and the billing methods that may be employed. Consider the various billing and fee methods currently in use, as shown in Table 1-1.

Finding the billing method and fee structure that works best for each practice takes time, experimentation, and discussion, not just with current or

Table 1-1
Show Me the Money: Billing Methods

- **Design concept fee or consulting fee**: A fee that covers a basic design concept or consultation only.
- **Hourly fee**: Charging an hourly rate, which varies depending on geography and experience, and sometimes simply what the market will bear.
- **Fixed fee**: A single total fee based on an estimated amount of hours related to project size and scope.
- **Per-square-foot fee**: Exactly as it sounds; for example, charging $5 per sq. ft., multiplying that by the total square footage.
- **Per diem fee**: Charging per day.
- **Retainer**: A predetermined fee that reserves a professional’s time for a project. The retainer is set to assure commitment of the designer for a specific project or time frame. A retainer can be a separate amount in addition to the design fee or a portion of the project design fee. A retainer, and sometimes the full fee, may be paid in advance of beginning the project.
- **Retail-based models**:
  a. **Merchandise and product services fee**: Determining and negotiating a percentage of the cost of the goods and installation involved in a project. This percentage is multiplied by the budgeted or final costs of the project.
  b. **Cost plus markup**: Charging for the cost of materials plus additional amounts for administration and profit. Percentages covering the purchasing of fixtures, furnishings, and equipment may also be included.
- **Combining a number of the above methods**
potential business partners but with other practitioners—and sometimes clients—as well. What an interior designer charges in Manhattan may differ dramatically from the fee scale of a practitioner in Casper, Wyoming; San Antonio, Texas; or Chicago—and while one business’s billing methods may differ from a neighboring firm’s, understanding the going rate and method of billing of interior design services as a whole within a specific geographic market is essential. Consider the following excerpt from an industry panel entitled “Demystifying Fees,” conducted in May 2008 in Brooklyn, New York, during the borough’s annual BKLYN Designs trade show. Moderated by Judy Sheridan, principal of Sheridan Interiors Inc., the panel included three New York–based designers: Kathryn Scott, principal of Kathryn Scott Design Studio (which has a secondary office in Shanghai); Susan Huckvale Arann, president of American & International Designs, Inc.; and Kati Curtis, IIDA, ASID, principal of Nirmada Interior Architecture and Design. While these three women practice largely in the same geographical region, their billing processes are as individual as their practices:

Question: What are the basic ways that you, as a designer, charge for your services?

**Kathryn Scott:** For a long time I’ve worked on an hourly basis because it is simple and straightforward and gives you flexibility. Often the client is not sure what they want, so hourly billing fares well. I’ve also done fixed fee, which is usually determined by figuring out how long it takes to do each component of a room. You figure that out by calculating the amount of manpower and adding 20 to 25 percent to it. That is before the design concept. Purchasing would be extra, and I would often add 30 percent on top of that. I’ve found that to work, but some people are unsure if it is for them.

**Susan Huckvale Arann:** I charge hourly. I also charge a flat fee, and I check my charges on square foot: If I’m developing a flat fee, I take the square footage and multiply that by $5 per square foot or $8 per square foot to see if it matches what I calculated for the flat fee, just to check [that I’m charging an appropriate amount].

**Kati Curtis:** My firm does commercial and residential projects, so I don’t have a set way of charging. It’s based on scope. If I have a very, very clear scope after I meet with a client and have an initial interview, then I will work on a fixed fee. Coming up with that fixed fee is easy, because I have a master task list and spreadsheet to figure out how many hours are involved and who will do what, and then I add on for revisions. If the scope is not clearly defined, we work on an hourly basis.

Q: Are you charging hourly when you’re out shopping with clients?

**KC:** Absolutely, and then 50 percent [of the designer discount] on top of that. We call that a specification fee.
SA: I call it a purchasing fee or specification fee, and my specification fee is 38 percent. I started at 30 percent for a while and then moved up to 35 percent. Then I went to a seminar years ago that encouraged everyone to increase their fees by 3 percent, and at the end of the year it makes a big difference. I very rarely get someone questioning it.

KS: It’s important to add that if you have a limited fee, you have to have a limited scope.

Q: When is hourly applied and when is percentage applied? Do you charge hourly in addition to the percentage, or is it an either/or situation?

SA: I always charge hourly and always a percentage. Do I make everyone sign a purchasing agreement with me? I decide on the job. I may add a shopping day fee where I drive them in, take them to lunch, and we shop no more than 5 hours. I lead by my hourly and always add my percentage fee on top of my hourly.

Q: Do you collect a design fee or retainer?

SA: Always. Working hourly, I project the hours. If I do a flat fee of $20,000, I require a retainer of $10,000.

Q: Are your hourly fees lawyerly, where you charge every 15 minutes or every 10 minutes? Where do you draw that cap? What about things like email or correspondence—do you just charge when you’re designing?

SA: I don’t bill 15-minute increments. When I look at email, which is a big time-consumer, I lock it in at 30-minute increments and I bill out 3.5 hours, 5 hours, etc., which includes everything.

Q: How specific do you get when documenting your time?

SA: The last line in the bill is email and correspondence. I’m very specific on the time when I’m working on programming or the time I’m out in the field, and I do it by day.

Q: How do you handle shopping for a specific item when you don’t find anything?

SA: If I’m out shopping and I haven’t found anything, the customer does not pay. I also preshop many times.

Q: Are you currently happy with what you’re charging?

KC: I’m thinking of increasing my fee because I am a professional. . . . I have been charging fixed fees for residential jobs, and I’m thinking of throwing that out the window. I have a problem with letting people get away with things. I’m finding in a lot of instances that I have to go back with an addition to our original fee, and I hate to do that. I think it causes problems.
and tension in the relationship, and I’d rather keep it out of the mix. I find that it has always been quite possible to do hourly if you charge enough, and if I charge hourly, then you can call me anytime to work.

SA: I’m thinking of raising my hourly fee, but I’m reluctant. However, with my international clients, I’ve recently started incorporating a higher fee.

KS: I try to figure out ways my two offices can work together and am always trying to adjust my fees to fit the market.

Q: I’m starting out on my own and it sounds like hourly is the better way to go, but I have no idea how to guesstimate. How long are you going to be working changes. How do you assess the hours you will be working?

KC: I have a master service list and I figure it out from that based on experience. But if you’re just starting out, basing it on square footage may help. If it’s going to take you this long per square foot, and this much time for presentations and estimate, then test it against $5 per square foot or $8 per square foot.

Q: How do you charge for a design fee?

KS: You have to figure out how much time it will take. A living room can mean many different things, and even two living rooms can be different amounts of work and the scopes can be different. You try to figure out how long it will take you.

I’m told that sometimes a fee can be more profitable than doing hourly, especially if you have a reputation where you can get a premium fee. I’ve heard of some people charging anywhere from $15,000 to $25,000 for a design fee, and the hourly not being equal to that. It’s hard to say. It depends on the client. It depends on the project. Some clients are wonderful to work with. You show them something, they like it, and you go the next day. Other people may have to go over it again and again and they’re not sure, and then they don’t like it. These are very different experiences.

KC: I find, especially with residential clients, the scope grows and changes and becomes many different things. If I start with a design fee and the client understands what it is for, we work from there. I hope I’m offering them additional solutions … but I think I shortchange the client and myself when I do that, so I started charging hourly.

Q: Do you tailor your financial arrangements for each client?

KS: It always has to be different. I have two contracts that I use. One is more residential, and one is more commercial. The one that is more commercial is for bigger jobs and it’s quite long, about seventeen pages. If it’s residential, I don’t put all of that on there because it may not be necessary. It was ASID’s template, but altered. I was hoping that all I would have to do is just change the name and the date, but it doesn’t work like that. You have to adjust it to what the client’s needs are, taking things out, adding things in. It’s never just changing a name.
SA: My contract changes. If it is a referral, I have a paper that goes out ahead of time explaining how we work and listing what we do, along with our fees. I send that out when I specifically know where the client came from. The contract changes if I am doing retail or if I want something that is a little bit less defined. I would be afraid of anything over three pages and I try not to go past two if I can, as I think it’s intimidating. I have a difficult time with clients when it is longer. I make sure it specifies the design fee, purchasing fee, and compensation.

KC: Our standard contract is based on a mix of IIDA and ASID agreements. It’s always different. What I’ve been doing is clearly outlining in the scope of services what we’re going to do so the client understands what they are paying for when they get that bill. We bill monthly or biweekly, which is shocking to some clients. If you outline it, they understand it and don’t just think I am going to come in and give them furniture. They see that it takes time.

However, I have to rewrite the scope every single time I send out a proposal. I like Susan’s idea of sending that out in the beginning to say this is what we do, particularly with residential clients. I think TV shows are killing us. People think I’m going to come in and in two hours my entire workforce will transform the space. When they see the breakdown, they see it is much more involved, and they will pay for it.

Q: Assuming that the way you charge now is the result of an evolutionary process, what would say was the one important thing you’ve learned?

KS: When I took on my first client in my own business, I had no business sense at all. I just wanted to design and didn’t think about it. My first client was very sharp and would not pay both the commission and the hourly fee, saying I had to choose one or the other and he would rather pay the commission fee. I didn’t know any better, so I agreed to the commission.... I learned that flexibility is good because a client often changes their mind. If you have a fixed fee and then have to say this is extra because it is not in your scope, clients are not happy about that, which is why I charged hourly for so many years. If it is hourly, they know what they are getting and they don’t abuse it. The client who was only on a commission was abusing my time.

KC: With a background at the architectural firm, going out on my own I had no idea outside of my project management experience at the bigger firm. Coming to panels like this, I realize I can be charging a lot more. My first project was an entire house. It was a great experience but I felt guilty about getting an hourly rate that I had considered higher than I thought I would obtain. Then I got more involved in ASID and IIDA, and I started learning that I could charge a lot more. I was worth it and really began looking at it as a business entity. How much is my overhead? How much is my insurance? How much is my software? When you look at it from a business standpoint, you need to charge those fees by the hour.

SA: My most important person was my accountant. One day he walked in and gave me my end-of-the-year information and said I had to evaluate the
fact that unless I took a paycheck every week, I should reconsider staying in business. He said look at all the money that is coming in and whom you are paying and what you are investing in—and you are not taking a paycheck. That made me go back and figure out what it was costing me every day to open and close my doors. The first check I would write would be my check. There are still times when I don’t take a check every week, but I make sure I pay myself before reinvesting in the business.

Protecting Your Business: Insurance and Contracts

Risk is inherent to any business venture. Protecting both business and personal assets from risk is crucial for any entrepreneur with dreams of long-term success. Two paths to risk management for your design firm are solid business contracts and insurance.

Contracts are legally binding documents between two or more individuals or entities and are enforceable in court. Depending on how a design firm operates and the types of projects it works on, contracts may be entered into with clients, other professional consultants, vendors, contractors, or installers.

Risk of loss for business owners comes from a wide range of incidents: fire, flood, or earthquake damage to your place of business; injury to visitors at your studio or showroom; or damage to a client’s property by your employees. These are but a few of the unforeseen events that could incur devastating financial losses.

Preparing for Risk: Buying Insurance

Jeremy Welsh

Jeremy Welsh is vice president of The Insurance Exchange Inc., a privately held, independent insurance agency operating in the Washington, D.C., area.

Since its founding more than forty years ago, the firm has grown to be one of the largest and most sophisticated agencies in the mid-Atlantic region, serving customers with professionalism, integrity, and innovation. The firm offers employee benefits, property and casualty insurance, and retirement products to businesses throughout the United States and around the world.

Few things in life are as rewarding as launching and running your own business. There are also risks inherent in running a business, some of which can be mitigated by the right insurance plan. Design professionals have significant exposure to losses, and a professionally designed insurance program will limit exposure to loss and help ensure the viability of the company.

Listed below are the most common insurance coverages that designers should consider:

- Property and Liability: crucial to any business
- Professional Liability: strongly recommended
- Workers’ Compensation: mandated if you have employees
- Business Auto and Umbrella: strongly recommended
Employee Benefits: recommended if you have employees

Key Person and Buy-Sell Agreements: strongly recommended in many circumstances

Property insurance protects a company’s assets against losses from a wide array of events, such as fire, smoke, wind and hail, vandalism, and theft. The two major types of coverage are building and contents.

The need to purchase building coverage will depend on whether you own the building you are occupying or are required to insure it as part of your lease agreement. Building coverage can also provide protection for your interest in any improvements made to the building on your behalf.

Contents coverage provides coverage for your furnishings, office equipment, tools, computers, accounts receivable, and valuable papers and records. Design firms also need to be sure their policy covers any client's property on their premises, such as undelivered furniture, accessories, or fabrics, as well as items they may have temporarily removed from the client’s premises. Another coverage usually included with property insurance is the loss of business income. The income from your business is what keeps you in business. By making sure that income stream continues, your business can continue even if the income is disrupted.

When purchasing property coverage, be sure that your building and contents are covered on a replacement cost basis. This means that the policy will pay to replace the property with no deduction for depreciation.

General liability insurance is crucial coverage for any business. It protects your business against costs arising from claims of injury or damage caused to others by you or your employees. It also protects your company if someone is injured as a result of using your product or service. When you consider that the legal expenses and settlement (or judgment) expenses from a single lawsuit could drive your business into bankruptcy, you'll see why this kind of insurance is considered a “must-have.”

Professional liability insurance is a separate liability coverage that is strongly recommended to all design firms. Designers are considered professionals, and problems with their work are not covered by a general liability policy. Claims can be brought against you for a number of reasons, including advice given to clients on proper décor for a building; changes or modifications in design plans; errors in materials used; improper spatial designs; failure to obtain client’s written consent to design or materials change; and more. Whether valid or not, a claim for professional errors or omissions could result in an expensive court action, not to mention the possibility of a large judgment if an award is rendered against you.

Workers’ compensation coverage is required if you have employees. This is a state-mandated coverage that provides cash benefits and medical care if an employee becomes injured or disabled due to an injury or illness related to their job. It is required in all fifty states. Owners can choose to exclude themselves to reduce costs.

Two other coverage types to consider are business auto and umbrella. Business auto insurance is required if vehicles are owned by the business, but liability also exists when employees use their personal vehicles while on company business. Personal auto insurance is the primary insurance in this case, but it does not protect the business owner if their business is sued. When an employee causes an accident, the injured person will, more than likely, look to the company to pay damages. Hired and nonowned coverage will protect the business in this circumstance.

Umbrella coverage is an additional layer of liability coverage that picks up where your business auto liability, general liability, or other liability coverage stops. Umbrella insurance is an inexpensive way to provide extra coverage against catastrophic bodily injury and/or property damage.

It’s tempting to just ignore employee benefits insurance, but good employees are the key to the success of your business operation. Providing employee benefits such as medical, dental, and disability benefits will not only help keep your employees healthy, but will help keep them content. Think about how much money and time you spend finding and training new employees. Retaining the good employees you already have makes good financial sense.
Some business owners stop here. But there are other types of insurance that wise business owners will also want to purchase as protection against incurring the kinds of losses that can close their doors.

If you are a business owner, you should also carry some kind of disability insurance. Disability insurance pays an insured person an income when that person is unable to work because of an accident or illness. There are various kinds of disability insurance available that are tailored to the needs of business owners.

If your business is dependent on the expertise or knowledge of particular people in your company, you should also consider key-person insurance. This type of plan helps to compensate a business for financial losses due to the death or long-term disability of a key person. The insurance provides additional funds to the business until the key person can be replaced, or until he or she returns to work.

If you are a member of a partnership, you may also want to carry buy-sell insurance. If one of the partners dies or becomes disabled, this kind of insurance provides the surviving partner or partners with the money to buy the deceased or disabled partner’s share of the business.

Being a successful businessperson means being able to anticipate events and plan for the future. Business insurance is one way of ensuring that you are in control of your future rather than being controlled by it.

Complete Contracts = Profitable Projects

Debra Browne, ASID; Principal, Harrison Browne Interior Design Ltd.

Debra Browne, ASID, is the principal of Harrison Browne Interior Design Ltd. in Aspen, Colorado. The firm works on residential and commercial projects ranging from small condominium remodels or retail projects to multimillion-dollar residences and national retail chains. Firm capabilities include a specialization in interior construction consulting, new construction, remodels, space planning, material specification, custom furniture design, and home furnishing and fabrics. Browne, who holds a bachelor of interior design from the Interior Design Institute of Denver, is a frequent industry speaker at events like NeoCon® World’s Trade Fair and ASID’s ‘Interiors’ conference, where she often presents on design business practices.

A complete contract is the most important tool in a professional interior designer’s business. It is so incredibly important that we, as a profession, set a standard and create an expectation in our clients that they will be signing a contract, that it always have the same basic information, and that it look like a previous contract that they had with another firm.

This contract sets us apart from those who are not educated, experienced, or professional.

Consider this scenario: The job is huge, the client loaded. It is a dream job. You rush to get the initial presentation together. You spend oodles of time you would never spend on a smaller job. You think that the clients will pay your fees and that this will be a sensational project to have photographed. You are breathless with excitement.

Hey, wait a minute! Take a deep breath of professionalism. In 2004, I spoke at NeoCon in Atlanta and Chicago with a presentation titled “If I Have to Eat It, At Least Can’t It Taste Good?” In the sessions, we shared war stories, practiced skills relating to anticipating problems, and discussed how to avoid pitfalls other designers had encountered. After practicing skills and working through scenarios, the conclusion was a short discussion about contracts. Participants were interested in what constitutes a complete contract and asked for a copy of my contract, and this became the seed of inspiration for another presentation at NeoCon in June 2008, entitled “Complete Contracts Ensure Profitable Projects.”

Consider this real-life experience: A dear friend, a very successful designer in Denver, had clients come to her to quickly furnish a second home in downtown. Due to her enthusiasm and the clients’ quick
turnaround—they were only in town from Dallas for one week—they wanted the home furnished within a few weeks. It was a new build, and the designer felt comfortable, as she knew the builder personally.

The designer and client shopped the local design center and bought as much of the project off of the floor as possible, with the designer paying the showrooms directly as they went along, for fear of losing the products to another buyer and due to the short time frame for the project. The clients left at the end of the week and gave my friend a check for the entire amount, including the design fees.

One short week later, with orders in process, my friend’s banker called and informed her that the check did not clear. Indeed, the builder also got a phone call. After calling her attorney, my friend was informed that the products were not in the hands of the clients until delivery, so she was still liable for the orders and products and could not sue. In the end, my friend was able to have the showrooms credit her for items that had not left the floor; however, she did have to “eat” the product that was already on order, for a net loss of $40,000. She had to take out a second mortgage on her home to pay the vendors. A contract prior to the whole shopping trip would have helped.

The contract is the first impression the client has of your business. How does it look? Has an attorney reviewed it? Has it kept you out of trouble? Do you style it to each client? Do you ask for a retainer?

Contracts vary by project and by clients’ needs. My research has found three wonderful books that discuss and present sample contracts that are easy to work with and understand. If you feel your contract needs some TLC, I have found the following books most helpful:

1. The Interior Design Business Handbook, by Mary V. Knackstedt. It includes a sample copy of the ASID standard for an agreement.


3. Business and Legal Forms for Interior Designers, by Tad Crawford and Eva Doman Bruck. It has a complete CD of a wide range of business forms that you can tailor to your needs by filling in the blanks.

So What Constitutes a Complete Contract?

1. Who’s Who: The Identity of the Parties

One general recommendation: When residential projects involve both a husband and wife, both should sign.

2. Where: Description of the Project

Harry Siegel suggests that the reference to “your home at…” is too vague, as a client could possibly say the project was not completed, unless the specific room is identified. At Harrison Browne, we do complete residences for the most part, and thus state “your Home at [the address].” If you are a small firm, the room or areas of the job site you are specifically responsible for are critical to the contract.

3. What Do You Want to Do: Specific Services You Will Provide

I use my contract as an educational tool, as it lists “all or some” of the following services that may be provided, which really enables us to review the process with the client. The client is exposed to all of the elements of the job, and it opens the conversation to discuss which phases our firm will handle in the case of a huge design team. To clarify the items we will do is enormously important, as we have had several clients want us to do specific parts of a home without providing the interior architectural services.

Under no circumstances should the contract appear to provide services you are not licensed to perform. You can discuss third-party consultant services at this time, or add them in the form of an addendum. We usually have the client pay directly to the structural engineer and some of the subcontractors, as we have found that this can be the area of most liability to our firm. Do you want to provide the electrician, plumber, or contractors? Do you want to take the liability for the project if the plumbing fails or the electrical work.
starts a fire? As a remodeling firm, we have taken on this scope of work, as it is more profitable overall for the firm to oversee the complete job. With proper insurance policies in effect, the liability is covered.

4. How Do You Want to Do It: Specification and Purchasing, Budget, and Schedule

Your contract should clearly state requirements of purchasing for the project. The terms of payment should also be specified, and sales tax, delivery costs, and installation changes should be discussed. Written approval of point of sale (P.O.S.) should be standard.

Create a strong paper trail. We have the clients sign tags on the fabrics, the back of the stain samples, the drawings, and the proposals. It is critical to communicate clearly all of your design intent, along with the costs involved. A firm I knew had a standard practice to up-charge reimbursable expenses by 15 percent for bookkeeping costs, but this was not clearly stated in the contract. The client sued for hidden costs and won. At Harrison Browne, we charge for reimbursable expenses, and it is clearly stated in our contract.

5. Who Is Responsible: The Extent to Which You Will Be Responsible for Supervising the Job

If you are charging hourly, does the client understand that each job site visit will be billed? Does the client want your review on a weekly or an as-needed basis? As our firm deals in second homes, we are often the client’s eyes on the project. This is also the place to inform the client of their responsibilities. We had a client tell us he would not pay us because his home “would not be ready for the season” when his dining room chairs were not there in time for July 4. We went back to our contract, which stated the approvals needed from him in a timely manner in order for us to perform. His wife had not decided on the chairs until June 1, and with a twelve-week lead time he would not have his chairs by July 4. We were able to borrow chairs from a vendor for the time the client would be in town. The client later apologized.

6. Show Me the Money: Compensation Arrangements

How are you charging for your time? How are you charging for the product? Fixed fee, percentage of costs, hourly rate, or combination? This should be documented and easily understood by the client. State how the billing is to be done and include a payment schedule. A retainer should be standard and is usually applied at the conclusion of the job.

7. The Fine Print: Your Safety Net


No two designers or projects are alike, and each contract must be tailored for the individual project.

Finally, in order to have a complete contract, it obviously must be signed. In the spring of 2008 I had a client tell me we didn’t need a contract. “Ask the contractor,” he said. “I have been good and have paid all my bills on time.” I replied that I did not work without a contract, which we sent and he signed. As it turned out, he ended up being a very difficult client and I ended up terminating our relationship. Because the contract stated, “This contract may be terminated by either party in writing,” all monies owed to me were paid.

As we work together to raise the level of our business practices, the general public will see us as professionals, worthy of the payment we have contracted to receive. Be sure to include the basics, tailor your contract to your client, and negotiate win-win situations. Sell yourself and your talents. Make your professional business your finest project. (See Appendix A: ASID Document ID123, Residential Interior Design Services Agreement.)
Setting Up Shop

While many practitioners launch their businesses out of their own homes, the entity eventually may require more space than a spare bedroom or home office can provide. Opening up a new office, however, requires legwork beyond signing a lease and handing over the keys, and a significant amount of preplanning can help avoid obstacles in the long run.

Location, Location, Location

Charles C. Carpenter

Charles C. Carpenter, CFM, CFMJ, has worked in facility management since 1995. A graduate of the University of Texas, he is completing a master’s degree at Texas State University, where he has earned a graduate certificate in professional ethics. His research thesis is entitled “The Effects of the Built Environment on Occupational Stress.” Carpenter has presented at conferences in North America and Europe and written articles on a variety of topics, mostly related to facilities and the built environment. He is a member of the International Facility Management Association (IFMA), the U.S. Green Building Council’s Texas–Balcones Chapter, and the Association of Contingency Planners.

There are a lot of considerations about where to locate an office. The decision to work from a residence ultimately requires a balancing of priorities. While working from home may be cheaper on paper, an interior designer may find it more beneficial to set up an outside office. A home office may add expenses such as commuting to clients or a larger home and mortgage payment, as well as the inconvenience of temporary staff working from your home or distractions from family, neighbors, and pets. A home office may also compromise your privacy, safety, and security.

Once the decision is made to set up an office, interior designers will have to educate themselves about the different options available. It may be possible to lease space within the offices of another firm, such as an architect. Another option may be to partner with a friend or colleague to open an office; however, the splitting of expenses or the insolvency of the other party may strain relationships or, worse, leave you liable for the other person’s expenses.

The hardest part of setting up an office may be picking the physical location. There are many items to balance in finding the best fit. Some things to consider when picking your location include:

- Cost of Travel. You will have to consider both the cost to travel from your home to the office and from the office to your clients. A location near mass transit stations may be more valuable, as the physical demands of carting samples a few extra blocks to the subway may increase your dry cleaning bill more than your rent savings.

- Proximity. You will have to decide how near you want to be to showrooms and vendors. Supply and demand could inflate the cost of real estate the closer you get to popular areas for interior designers.

- Convenience. You will want to consider the ease of finding your office. Will it be easy for clients to locate you? Is ample free parking available? An office building may face a major thoroughfare but have an address of an obscure side street, making it difficult to find.

- Perception. The part of town where you locate may have an influence on your clientele. If you are soliciting business from outside your area, potential clients may be turned off when they see a physical address in Pflugerville, Texas, versus one a block away in Austin, Texas.
Location aside, you will have to make a decision on the type of building to occupy. Commercial space is typically referred to as office, retail, industrial, or mixed-use, with designers typically opting for office space. These spaces are marketed at different prices as well. While industrial space is often quoted at cost per square foot per month, office space is typically priced at cost per square foot per year. Thus, a 400-sq.-ft. office suite at $24/sq. ft. will cost $800 per month ($2/sq. ft. per month × 400 sq. ft.). The costs of these buildings do not stop with the rent. The operating expenses will be dictated by the lease terms, with an estimated payment often due with the rent. Different types of buildings also come with different levels of services to be provided by the property manager. Unless you want to be your own facility manager, selecting a building where the property manager will arrange for all supplies, services, and repairs should free up time to service your clients or take on new ones.

The appearance of a building may be the most important factor in selecting space, as clients may be turned off by a shabby location. The building may also deliver customers, meaning a carefully selected suite might lead to walk-in customers who frequent other tenants. Selecting a suite next to a plastic surgeon instead of a podiatrist might generate the type of foot traffic that engages interior designers. If your expertise lies with sustainability, selecting a green building may be a necessity.

The next issue designers will encounter is the type of lease and the lease language. There are different types of leases, but the most common are the gross or full-service, where the lease payment includes all expenses, and the triple-net, where the lease payment only includes rent, building insurance, and property taxes, with the operating expenses calculated separately. Lease language that is satisfactory for your needs is crucial. Some aspects of a lease to consider:

* Rent Calculation. Will the payment be based on rentable or usable square footage? In older buildings a greater percentage of square footage may be lost to building columns or HVAC equipment; however, that unusable space, 30 percent or more, could show up in your monthly lease payment. Equally important is whether the annual percentage that your rent could increase is written into the lease.

* Holdover/Renewal/Right of Refusal. Does the lease provide the opportunity to renew your lease? If not, the sweat equity put into outfitting your office space could be lost to someone else. Likewise, do you have the right of refusal if the space next door becomes available?

* Subleasing/Exit Strategy. Do you have the right to sublease your space if you move or grow beyond its size? Is there an exit strategy available in case you can no longer occupy the space?

* Tenant Improvement Allowance. Leases typically offer funds to the tenant to be used for building out the space. These funds are far from free and are amortized over the term of the lease. Tenants need to be aware of the conditions of the tenant improvement allowance: there may be specific expenses for which the funds can be spent, or a timeline for those funds to be used before they are forfeited. Work performed in-house may not qualify for reimbursement. In existing space, one option for an industrious designer could be to take the space as-is to reduce the lease payments, and self-finance improvements on an ongoing basis.

* Capital Improvements. Are capital improvements (e.g., HVAC systems, roofs) spelled out in the lease? In an effort to save money, some building owners will continue to repair antiquated equipment instead of replacing it. Repairs are operating expenses and are passed on to you, the tenant. Also, any improvements that are attached to the building may be considered capital improvements—meaning a light fixture, cabinet, or product samples installed by the tenant may have to remain at the end of the lease unless addressed in the lease ahead of time.

One final area to consider is the operating expenses for a location. The operating expenses are all the day-to-day expenses involved with a building and can include such items as janitorial costs, utilities, security,
and landscaping. Operating expenses can easily run more than the cost of the rent, based on the price of real estate. Common-area maintenance refers to the cost of maintaining corridors, elevators, and other items shared by all tenants and is a term often used as part of or in place of operating expenses, depending on the terms of your lease. Operating expenses are typically assigned in proportion to a tenant’s square footage in a building, so that a 400-sq.-ft. tenant in a 1,600-sq.-ft. building would pay 25 percent of the operating expenses. Some operating expense issues to consider:

* Managed Expenses. Depending on the lease terms and type of building you lease, the property manager could be responsible for arranging all repairs and services, from changing a lightbulb to inspecting the fire-suppression system. Property managers will mark up these expenses; however, the time saved in locating and paying dozens of vendors may well be worth the 10 percent markup. As with anything, a property manager’s markup is negotiable.

* Expense Caps. Is there a predefined amount that operating expenses can increase year-over-year? With a property manager collecting a percentage of expenses, there may be little incentive to shop around for the best deal.

* Usage. It is important to know if utilities and other expenses are based on actual usage. For example, a two-person design firm may split a building with a web-hosting company that uses one thousand times more electricity, only to find out that the electric bill is split fifty-fifty. Expenses that are based on square footage need to have methods for auditing and recalculating to reflect true usage. In the event that a tenant closes an office, it is possible that operating expenses for unused services will continue to be billed.

* True Up. At the end of a fiscal year, the property manager will “true up” the expenses for a building by reconciling the estimated charges with the true expenses for the property. Once this calculation is complete, a tenant could receive an unexpected bill and modified operating expenses from the property manager and will need to set aside funds to cover these charges.

Some of the burden of selecting a location can be lifted by using a broker. Brokers typically work at no apparent cost to the lessee; however, most tenants will find that the broker’s commission is included in the total cost per square foot. The broker’s fee, typically 3 percent, may be well worth the cost when one considers the time savings and expertise that an experienced broker provides. Brokers can help with negotiations, compare lease rates for similar spaces, review leases for tenant-friendly language, and share knowledge about a potential property manager and building owner. The area where brokers may be most helpful is in referral of business, as brokers are always placing companies in new locations that may need interior design services. Developing a rapport with a broker—or a property manager, for that matter—may promote your work and provide you with new business worth hundreds of times the cost of their services.

Looking Back for Those Moving Forward

As a precursor to some of the more detailed logistics of starting and growing a firm that will be discussed in the chapters ahead, consider the following advice, offered by Mark C. Zweig as he neared retirement.
Advice in Hindsight: If I Were Starting a Firm Today

Mark C. Zweig

Being in "the next phase of my career," that is, semiretirement, gives me plenty of time to reflect. A frequent thought is what I would do if I were starting a new A&E or environmental firm today. Here are some of my thoughts, in no particular order of importance:

1. I would budget (and spend) about 15 percent of my net service revenue on marketing. I know that's a lot. But underfunding marketing has slowed down more firms in this business than anything else. I would come roaring out of the starting gate with an in-your-face PR campaign, a CRM (customer relationship management system) that was well populated with prospective clients, and high-frequency direct mail with postcards and personal letters. I'd also have a simple, memorable name and good graphic design that was reflected on every sign, plan, presentation, direct-mail piece, and more.

2. I would be very slow to add more owners, beyond perhaps one or two key partners. It's taken me a long time, but I have learned that a lot of folks in this business don't really value ownership. They just want the cash. OK—I'd rather give them what they want. Cash is cheaper than stock that appreciates wildly, and my stock would because I'd have a firm that was growing like mad. Plus, more owners inevitably means more meetings, and I hate sitting in internal company meetings. Little is more boring and less productive. In general, the more owners, the more complicated things get, and the slower decision making is.

3. I would hire for personality and train for skills. You cannot change most people's behavior. That said, you can teach a teachable person how to do something. Think about it. I have had too many people work for me over the years who have had a lot of specific skills, but didn't have the personality attributes to succeed over the long haul. Conversely, I have been blessed with many great employees who had soft skills and intellect and strength of character to succeed with few of the basic skills to do what we needed them to do. Employees in this group learn quickly and adapt to new situations easily. The others either get run off or quit. You can't grow a firm if you can't keep the right people working in it.

4. I would be incredibly flexible with my work rules. Today, everyone has a lot to do, both at home and work. I would go overboard to accommodate the life schedules of my good workers so we could afford to keep the best of them. Of course, nothing comes free. Those who can't work the hours we want them to might make less—but we'd all be happier about it.

5. I would get a BlackBerry PDA for everyone who wants one and some of those who don't. I heard a little while back that a study concluded BlackBerry wireless devices pay for themselves in less than one month! I don't doubt this at all. And, as far as I am concerned, every manager must have one. This would not be optional because, without one, certain people will fall behind and be less responsive. I know there are people who don't want to be reachable twenty-four hours a day. They aren't cut out for management and leadership jobs in a high-growth firm.

6. I would have an open-book firm. Everyone would know how we are doing and exactly how they would benefit personally from that success. This takes great accounting, and I would be sure to have the systems it takes, along with the qualified accounting person, to implement and maintain the system.

7. I would charge a lot for my firm’s services. The only strategy that really makes sense for a professional services firm, as far as I can tell, is one of high quality and high price. You cannot hire good people, pay them well, market yourself effectively, and invest in your business without the funds coming in to do so. This takes high prices. The only way to get high prices is, first, market
yourself as a quality service firm. Second, be a quality provider. And, third, keep doing these things til you get out of the business! Firms that are trying to be the lowest-cost providers in their market sectors are destined for failure.

8. **I would decide when I am going to get out before I even started.** Everyone in the firm would know that from the start. I would ensure the firm’s success after my departure by having good people, great systems, and a well-known brand name that results in work seeking out the firm, instead of vice versa.

No doubt, there are many lessons one could employ if starting over again. But, wait, these things could all be worked into an ongoing firm as well. If these lessons make sense to you, what is to stop YOU from implementing them?

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