IIDEX 2012

CREATING VALUE FOR YOUR OWN FIRM THROUGH STRATEGIC ALLIANCES

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Creating Value for Your Own Firm Through Strategic Alliances

- Strategic Planning for Growth
- Marketplace is Changing
- Range of Services
- Short Term vs. Long Term Strategies
- Managing Risk
- Corporate Ownership Structures
Creating Value Through Strategic Alliances

Strategic Planning for Growth

• Status Quo (maintenance)
• Partnering & Joint Ventures
• Organic growth (internal succession)
• Multi-Disciplinary firm
• Mergers and Acquisitions
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Strategic Planning for Growth

• Resources
• Clients
• Financial assessment
• Business structure
• Agreements
• Financing
• Communications
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Strategic Planning for Growth

Resources

- Human resources
  - Professional and admin staff
  - Skills & training
  - Mentoring
- Administrative resources (internal)
  - Physical space
  - Equipment and systems
- Business contacts (external)
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Strategic Planning for Growth
Financial Assessment

• Budgeting the cost of achieving objectives
  • Obtaining resources
  • Marketing initiatives
• Analyzing Contribution & Profitability
  • New businesses / segments
  • Profit sharing and compensation
• Valuation: Purchase and Sale
  • Ownership interests (internal)
  • Businesses (external)
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Marketplace Is Changing

- Develop new services and specialties in-house
- Leverage a broader based firm
- Collaboration among firms to win projects
- International business opportunities
- Access to talent, technologies, markets, services
- Access to outside investors
- Impact on design firms of recent amendments to the Architects Act (Ontario) that permit broader ownership of architecture firms
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Range of Services

- Core design services
- Project management
- Functional and space planning
- Facilities management
- Furniture design, manufacture, import and distribution
- Art consultation and acquisition
- Sale of accessories
- Custom lighting design
- Licensing of products
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Range of Services

Business dimensions:

- Service - Knowledge
- Product
- Geographic

Challenge: What else can we do?

Think: Breadth & Depth of services
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Range of Services

- Architectural design
- Landscape architecture
- Facility management
- Furniture dealer
- Lighting
- Product/Materials
- Sustainable design
- Residential design
- Retail design
- Workplace design
- Healthcare design
- Hospitality design
- Institutional design
- Educational design

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Growth in Service Area

AccessAbility Advantage
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Services
We offer a full range of integrated services - from building and campus planning, to strategy and management, to educational planning - for postsecondary institutions worldwide.

- Strategic Planning and Position Papers
- Trends and Best Practice Surveys
- Feasibility Studies
- Space Standard and Benchmark Reviews
- Scheduling Reviews, Utilization Studies and Space Audits
- Resource Demand Analyses
- Space Allocation Plans
- Functional Space Programs
- Facility Master Plans
- Design Briefs and Design Reviews

Educational Consulting Services Corporation: www.ecs.on.ca
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Short Term vs. Long Term Strategies

SHORT TERM STRATEGIES

• Not necessary to commit to building internal resources (e.g. staffing, premises, computers and IT)
• Opportunity to get to know other professionals, companies
• Opportunity to test new markets, services
• Develop a new service in-house
• Collaboration for a specific project
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Short Term vs. Long Term Strategies

SHORT TERM STRATEGIES

• Develop new services internally
• Use of sub-contractors or sub-consultants
• Project joint venture
  – Participants remain as separate entities
  – Joint Venture Agreement for the project
  – Accounting and administrative responsibilities
  – Financing for working capital
  – Sharing revenues and expenses
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Short Term vs. Long Term Strategies

LONG TERM STRATEGIES

• More complex business arrangements
• Ownership and valuation of businesses
• Financing for long-term growth
• Need for higher level strategic planning
  – Due diligence process
  – Internal vs. external development
  – Mergers and acquisitions
  – Commitment of resources
  – Remuneration of senior management
  – Business plan for 1-3 years
LONG TERM STRATEGIES: MERGERS AND ACQUISITIONS

Benefits
• Synergies
• Economies of scale
• Acquisition of specializations
• Access to key professionals
• Increased market share

Planning
• Prepare your business – assess resources
• Search for partners / targets
• Valuation of the businesses
• Combining business cultures
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Short Term vs. Long Term Strategies

LONG TERM STRATEGIES: THIRD PARTY FINANCING

• Purpose of financing
• Banks
• Other third parties
• “Silent” partner?
• Loans vs. share ownership
• Terms, security and covenants
• Personal guarantees
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Managing Risk

OWNERSHIP STRUCTURES – TAILORED SOLUTIONS

• Financial Risk
  – Business operations and cash flows
  – External financing requirements and covenants
  – Investment of capital by owners

• Liability Risk
  – Professional Liability
  – Other Liabilities
  – Insurance

• Business Risk
  – Ownership Agreements (long-term arrangements)
  – Participation Agreements (short term projects, eg. JV’s)
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Corporate Structure

- Design firm starts new furniture business
- Takes on a business partner
- Liability risk is segregated
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Corporate Structure

- Combination of 3 design firms
- Plan to expand into larger contracts
- Each partner corporation retains separate ownership
- Partnership earnings allocated per agreement
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Corporate Structure

- Combination of architecture and design firms
- Liability risk is segregated
- Remuneration by way of salary/bonus/dividends
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Corporate Structure

- A Designer
- B Designer
- C Designer

ABC Co

D Investor

100%

Invest Co

29% of value
Class A common shares

29%

29%

13% of value
Class B common shares

- Investment in design firm
- Separate class of shares for investor
Architects Act (Ontario)
New Ownership Rules – Effective October 25, 2010

CORPORATION
• Up to 49% of the shares to be held by anyone; full-time employment status with the practice is no longer required

PARTNERSHIP
• Up to 49% ownership to be held by anyone.

HOLDING COMPANIES
• Holding Companies can be used in the ownership structure provided 51% control of the firm is maintained by members
Creating Value for Your Own Firm
Through Strategic Alliances

SUMMARY

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• Managing Risk
• Corporate Ownership Structures
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