

Financial Management Tools for AE Firms

9 min read



Roughly 1,000 new architecture firms are established every year with a scant 25% three-year survival rate [1].

Key Takeaways

- **Revenue Projections and Budget Creation:** We recommend that AE firms actually create three versions of their budget including the budget you anticipate will be most accurate in addition to...
- **Financial Management Software and Technology:** Getting on top of your financial management to maintain a healthy cash flow can be a daunting task – especially in small and medium-sized businesses...
- **Strong SMB Leadership Develops From a Strong Back Office and Financial Management:** In order to maintain a successful business plan, accurately project revenue, create accurate budgets, and manage your staff well, you need a management foundation that's securely planted in a robust back office...

While there are many reasons why a new business can fail, and most failed businesses do not survive for several reasons, the most common reason that architecture firms fail early is poor financial management leading to cash flow shortages.

During a cash flow shortage, a business does not have enough money to cover its expenses. This means that cash flow shortages can result in problems like unpaid vendors, unpaid payroll, or unpaid office rent. Any one of these costs going uncovered could be catastrophic for a business, so it's imperative that AE firm leaders have a solid plan in place for operating their businesses and maintaining financial health.

6 Powerful Financial Management Tools for Architecture and Engineering Firms

1. Business Planning

So, you've decided that you want to start an AE firm. That's wonderful, but simply planning to start a business is not a business plan. A business plan does not have to be long and complicated, but it does need to contain a fleshed-out idea of what your business will be, how it will function, and how it will grow.

Bare minimum: your business plan should include your company's:

- Mission - Why you want to start an AE firm and what you want to accomplish or provide to your clients
- Future Vision - Where you see your company in the next five, 10, or 15 years
- SMART (Specific, Measurable, Achievable, Relevant, and Timely) Goals - What you want your company to achieve and when you want to achieve it
- Action Plan - The steps you intend to take to achieve your goals

Your business plan should detail both long-term and short-term visions and goals for your business in addition to outlining the tools, team, technology, and anything else you'll need to make the vision a reality.

Keep in mind that the first acceptable draft of your business plan will not be its final draft. Business plans should be adaptable, and you should be prepared to pivot or adjust your original plan as the market, economy, your clients, and your vision change.

Read More: [Why You Should Outsource Your Engineering Firm's Back Office](#)

2. Revenue Projections and Budget Creation

A business plan is like an over-arching, long-term roadmap for your company's operations to follow. In a similar way, a budget can also be used as a roadmap. Budgets, however, are only relevant for a specified financial period, such as a year, quarter, or month.

Budget creation is an essential tool in financial management because the process requires you to create an accurate revenue projection for the upcoming year while also combing through your anticipated expenses and financial goals to create a balanced plan for earning, spending, saving, and investing over the upcoming year.

We recommend that AE firms actually create three versions of their budget including the budget you anticipate will be most accurate in addition to a worst-case scenario budget and best-case scenario budget. This helps business leaders anticipate and plan for potential risks and opportunities before they've occurred. As a result, you can better analyze your company's potential risks and opportunities to better build contingencies into your budget to ensure a healthy cash flow throughout the year.

How This AE Firm Went From Breakeven To \$1 Million In Profits

Read the full story (and more like this!)HERE.

3. Hiring Strategies in Engineering and Architecture Firms

When running an AE firm, you are likely hoping to achieve growth to increase the size of your business and its profits. As a result, however, you'll need to keep a close eye on your team's workload and the increasing demand from new and existing clients as you bring them in.

In a growing business, it's important to plan your hiring strategy so that you have new employees hired, onboarded, trained, and ready to hit the ground running as soon as you need them. Hiring too soon could result in money wasted on unnecessary labor costs, but hiring too late can result in lost revenue (and diminished employee morale) as a result of having your existing team stretched too thin.

Read More: [What Every Architecture Firm Needs To Know About Accounting](#)

Even successful AE firms can encounter challenges on the other side of human resources management: needing to downsize. For example, if your firm encounters extreme seasonal swings in demand or experiences a slow during an economic downturn, you might need to consider reducing the size of your team or hiring seasonally. Downsizing is a difficult decision to make, and it's important to analyze all of your options before letting go of valuable employees in whom you've already invested so much.

4. Financial Management Software and Technology

Getting on top of your financial management to maintain a [healthy cash flow](#) can be a daunting task – especially in small and medium-sized businesses that do not necessarily have the capacity to maintain a full in-house bookkeeping and accounting department. As a result, it's necessary to take advantage of the high-powered tools and technology that are available for facilitating, streamlining, and automated financial record keeping, reporting, and compliance in your company.

This includes comprehensive bookkeeping and [accounting software](#) like [QuickBooks™](#) in addition to tools for tracking expenses and organizing receipts, approving expense reimbursements, and even keeping track of your employees' time for more accurate billing and direct expense evaluation.

With powerful bookkeeping and accounting software and a suite of fully integrated applications, you can save time and money while keeping up your company's financial management.

5. Outsourced AEC Accounting Services Provider

Although you might not be able to afford to hire a bookkeeper, accountant, controller, and CFO, your company can still leverage the expertise of an entire team of financial professionals who are highly experienced in the AEC industry. With outsourcing, your company can work with a

whole back office team, consisting of outsourced bookkeepers, controllers, accountants, and CFOs at a small fraction of the cost of hiring these kinds of employees in-house.

Financial professionals can help you establish an operational back office that is secure and high-functioning. They can help you learn how to read, understand, and act on your company's financial reports and management reports. They can help you understand how to leverage the insights provided by your back office to maximize operational efficiency and profits in your AE firm.

Read More: [The Most Powerful Financial Insights for Engineering Consulting Firms](#)

6. Plan for a Recession

With inflation on the rise, continuous Federal interest rate hikes, and more ominous economic signs, the odds of entering a financial recession are fairly high in the opinion of many economists [2]. This means your company could face challenges on a number of fronts including increased costs due to inflation and decreased demand due to slowed economic growth.

The first step in planning for difficult financial times – whether due to an economic recession, construction material supply chain issues, or simply a slow year of business – is to know what your company's break-even point is. In other words, you need to know how much it costs to keep your business afloat without earning any profits. In other words, you should know how much money you need for your business to remain operational without bringing in any revenue. In other words, what are your overhead expenses? How much does it cost to pay your employees, pay the rent, and keep the lights on? How much does it cost to "cover your nut?"

Once you know this, then you know how much free cash you need to save (or have access to via loans or investors) in order to remain operational for a month, a quarter, or a year.

Next, you need a plan. This typically means saving some of your company's profits – rather than reinvesting them or paying them out to shareholders – for a rainy day. Additionally, you should also work to maintain good relationships with creditors and your vendors.

If your company experiences seasonality – such as slow down during winter when construction is difficult – you might need to look into a revolving line of credit or gap financing to see the business through the off-season while keeping your staff on hand and ready for the increased demand that will come in spring.

Whether you find your business operating on the brink of a [financial recession](#) or in the midst of a buoyant economy, it is always prudent to safeguard your company's financial health and future by planning and preparing for the worst.

Strong SMB Leadership Develops From a Strong Back Office and Financial Management

Being an architect or an engineer is one thing and being the successful leader of an AE firm is another. While a successful engineer or architect can successfully run an AE firm, it is necessary to make the leap from being a specialized service provider to being a business leader, manager, and strategist. Whether you're new to business management or have years of experience at the helm of a company, you need to understand that business success is heavily tied to your ability to manage the company's finances.

In order to maintain a successful business plan, accurately project revenue, create accurate budgets, and manage your staff well, you need a management foundation that's securely planted in a robust back office. Your back office should streamline financial management with automated processes, time tracking, expense tracking and categorization, and report generation.

With your back office functioning well, you can find clever ways to cut costs, maximize productivity, make the most of the company's talent, optimize your pricing, attract the most valuable clients, adapt your business model, and maximize your profits. By understanding how to manage your AE firm's finances, you can separate your business from the pack to ensure you, your business, your employees, and your investors enjoy a successful future.

1. <https://monograph.com/blog/guide-to-financial-management-for-architecture-firms>
2. <https://www.forbes.com/sites/qai/2023/01/20/will-there-be-a-recession-in-2023-and-how-long-will-it-last/>