2.6 Budgeting for Business Acquisition

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What You Will Learn in This Chapter
- Four methodologies for budgeting.
- The difference between hard and soft costs.
- Budgeting rules of thumb.
- Suggested expense categories.
- Strategies for budgeting for large expenditures.
- Emerging expense trends in the architecture/engineering/construction (A/E/C) industry.

The best laid plans for gaining work and brand building have to be funded to move from ideas to reality. The budgeting process is the means to set parameters for both hard and soft costs, establish priorities through resource allocation, and create a road map for funding the specifics of the business acquisition plan.

Business acquisition includes the whole spectrum of activities and initiatives that professional service firms must do to bring work to their firms. In today’s collaborative and multidisciplinary business environment, it makes sense to take down the barriers between yesterday’s “marketing budget” and “business development or sales plan budget” and merge the financial planning of paying for both of these efforts into one management tool – the business acquisition budget. In this way, the efforts of pure marketing activities are more closely aligned with business development objectives, and a truer picture emerges of what it really costs to bring work in the door.

Getting Ready for Budgeting

Most A/E/C firms have discovered the wisdom of creating a strategic plan that guides them in the long-term efforts to meet their company’s vision and mission. A strategic plan is the overall foundation of a company’s yearly business plan, of which the sales and marketing plans are components. Taken together, the sales and marketing plans form the business acquisition plan, as they are both required to meet a company’s revenue goals.

It is critically important that the business acquisition plan is strongly linked to and in support of the overall business plan. That way, marketing and business development professionals are not inadvertently working at cross purposes with where the firm wants to go, either in business pursued or in the messages and branding efforts being developed to support the visibility and positioning of the firm. Therefore, the first step in the budgeting process is to engage the appropriate firm leadership in the development of the business acquisition plan and to have conceptual buy-in on the details before dollar figures are developed. It is also helpful at this stage to have a rough idea of strategy costs so that in these discussions, some priorities may be set to inform further budget planning.

Firm Composition Considerations

Another variable to consider is the structure of the firm and what ramifications this may have on the business acquisition budgeting process. There may be one overall plan and one budget to support it, which is very common in a smaller firm or a firm that serves just a few market segments. Or there may be a need to develop multiple plans and accompanying budgets to account for different office locations or market sectors. While this approach is more involved, it has the benefit of allowing
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for more internal control and accountability from those charged with getting the work. The more detail in a budget, the easier it is to make choices and set priorities. Regardless, however, a business acquisition plan with specific detailed goals, strategies, and tactics is the foundation of good budgeting practices.

Budgeting Methodologies

There are four basic ways to approach developing a budget for business acquisition: the projection method, the percentage method, the goal-based method, and the ratio method. Which method is used will depend on the types of financial records a firm keeps, the preferences of the firm’s leadership, the degree of accountability desired, and the particular initiatives that are a part of the firm’s annual business plan.

All methods must account for two kinds of costs. These are soft costs or labor and hard costs or expenses. To keep it simple and easy to remember, costs are either for “staff” or “stuff!”

The Projection Method

For firm’s whose business cycles are steady and who have a well established marketing approach, the projection method is one of the simplest methods for budgeting. It relies on having costs from prior years for business acquisition activities for both labor and expenses. These are often termed as soft costs (labor) and hard costs (expenses), and it is more common to find that records exist for hard costs, but not for soft costs. Accounts payable records will often yield information about historic hard costs and can be used as a good gauge of past expenses. By totaling up the figures, a sum emerges that accounts for an approximate idea of what expenses can be expected for the next year, barring any significant deviation for new activities.

The disadvantage of the projection method is that it is not firmly tied to the business acquisition plan and its initiatives, and thus is more of a static number-crunching activity rather than a strategic and dynamic tool. However, as a place to start, particularly for a small firm, it is better to have a budget based on precedent that can be tweaked for some different initiatives each year, rather than no budget at all.

Soft Cost Rules of Thumb

If your firm does not track soft costs or labor devoted to business acquisition, then become an advocate for doing so, starting with the budget being prepared, no matter the methodology employed. Today’s sophisticated time sheet tools for billing project work can easily accommodate a few simple line items to indicate where labor is allocated.

To start, make categories for direct and indirect time. The direct category logs time spent face-to-face with those who can give you work. This can be for such activities as networking with prospects, meeting with clients about future work, working a tradeshow exhibit, or developing relationships with teaming partners. Indirect time tracks hours spent to carry out initiatives that support direct face-to-face activities. These typically involve activities such as proposal strategy and development, interview preparation, creation of marketing collateral, photography coordination, public relations, and research, plus a host of other things depending on a firm’s business goals.

With just these two labor allocations, much can be gleaned by tracking how time is spent. The following rules of thumb are helpful in budgeting for these soft costs for the first time.

For most business development professionals, a typical allocation of time spent in direct and indirect time is 50 percent for each. Allowing for between 15 to 20 percent of their time for firm overhead activities (firm meetings, planning time, paperwork, paid time off), this means that roughly two days each week will be spent in direct time and two days in indirect time for business acquisition. This generous allowance for indirect time allows business developers to leverage the intelligence gathered with potential clients in strategy preparation for project pursuits, customized proposal development, and interview preparation. As most successful business developers work in excess of 40 hours per week, make sure that all time is captured, so that a true picture of what success entails can be used with the projection method for the following year.

For firm principals, there is usually the expectation that 20 to 40 percent of their time be devoted to business acquisition efforts, with most of it spent in direct face-to-face time with prospects or clients. Many principals also are considered community ambassadors for their firms and expect to spend about 10 percent of their time in these types of charitable direct time activities, such as Rotary, United Way, or the Chamber of Commerce. In some cases, a principal might be 100 percent
labor overhead and spend all his/her time in either direct or indirect tasks associated with business acquisition. Asking principals about their preferences and billable time expectations will assure that their time is properly budgeted for and that they are aware that time spent on business acquisition activities is both important and accountable to the budget.

Marketing personnel typically spend most of their time in indirect efforts by supporting business acquisition activities. Time spent on research, proposal writing and preparation, interview coaching, and developing campaigns are all examples of indirect soft costs for labor. With an overhead allocation usually between 10 to 15 percent, the rest of a marketing professional’s time will then be budgeted to indirect costs. Depending on the firm, many CMOs and marketing directors also spend considerable direct time with clients, so each classification of marketing professional may need to be analyzed so that a reasonable labor budget amount is projected.

**The Percentage Method**

Many firms like to set a fixed amount of resources to be devoted to business acquisition, and the percentage method accommodates this preference. It allocates an agreed-upon percentage of the firm’s total net service revenues to fund all the activities that support getting work. Very often, this is done both by using historical firm cost data and by referencing various A/E/C industry sources for data. Also called the top-down method, the annual percentage devoted to business acquisition usually ranges between 5 and 15 percent of net service revenue. Using this method and starting with the total sum allocated, the budgeting process merely divides up the available dollars for both hard and soft costs so that the total reconciles with the designated fixed amount.

One of the major disadvantages of the percentage method again concerns accounting accurately for soft costs. Some firms consider all labor a sunk cost and only care about controlling hard costs, while others want to capture all the labor costs associated with business acquisition. According to one of the latest versions of the ZweigWhite Marketing Survey, marketing staff labor usually accounts for at least a third of the marketing budget and non-marketing staff time typically accounts for about 25 percent. Thus, the effect of labor costs on a realistic budget varies tremendously depending on how it is tracked.

The downside to using data from any industry survey is that it is very dependent on what is considered a business acquisition expense by each firm participating in the survey. It also does not allow for market conditions and for a firm’s specific initiatives. Being a fast-growth firm, entering new markets, changing a reputation, or supporting a new office location all have unique budgetary requirements. Using a percentage method with such big initiatives planned doesn’t leave much money or time for other things needed for successful business acquisition. By presenting industry averages, the percentage method begs the question: Does this year’s budget want to support “average” firm results or superior results that are linked to specific needs and conditions?

If a firm still wants to use the percentage method, but has some of these big ticket initiatives in their plans, it is helpful to make these a special category that calls for special funding for a set amount of time. Again, a carefully detailed plan can help in making the case for going beyond typical industry percentages. This type of approach can then compete with other special initiatives for the firm and be prioritized and funded in comparison to them.

One of the benefits of having access to industry averages is the detailed information that can found on overall trends for both budgets and labor costs. Since 2000, the costs for business acquisition have been trending upwards as A/E/C firms are facing increased competition, using more expensive tactics, involving more people in their firm in pursuing work, and adopting the latest technology to help in producing material and increasing productivity.

**The Goal-based Method**

The bottom-up or goal-based budgeting method allows a firm to base a budget on revenue goals and the implementation tasks that need to be accomplished to meet them. It starts with a solid business acquisition plan with clearly delineated goals, strategies, and tactics. Then an action or work plan is detailed for each strategy and areas are identified that involve costs, both for labor and expenses.

With costs allocated to each initiative, comparisons can be made between each item and budgets adjusted to support those deemed most critical. It helps to have high, average, and low estimates of hard costs identified so that many different budgeting scenarios can be considered. Sometimes, simply using a different method (e-mail versus direct mail) or cutting back on people involved (two at a tradeshow instead of four) can allow all the strategies to remain in a plan, but with different resources used. Be prepared for running the numbers a few times and negotiating when the goal-based budgeting method is used. However, the realization of what things really cost is one of this method’s many advantages, and over time,
the process builds on the historical records that are kept. It is most akin to what the A/E/C world does for project budgeting, so using this method and being held accountable for it sets a professional tone for the business acquisition plan. Be sure to take full advantage of time sheet numbering for specific categories of initiatives so that next year’s budgeting process is easier to do.

While the goal-based budgeting method is the most time-consuming to develop, it allows for the most control during the expenditure year. Simply put, if it’s not in the budget to start with, it’s harder to make a case for it later on, particularly if many people have been involved in the budget’s development and critical decision makers have signed off on its creation. However, the smart budgeter will allow for a contingency to deal with things that come up during the year that were not expected, and thus can fund them appropriately.

Since rarely will all business acquisition initiatives happen at the same time, the goal-based method allows firms to control expenditures more carefully depending on cash flow. A conscientious planner will take into consideration what parts of the year are slow billing months and will plan for less capital-intensive initiatives. Conversely, when the call is put out to spend year-end money or pay taxes, it helps to have a few items on the wish list that can be done during the last fiscal quarter, perhaps to prepare for the next year. A good budgeting practice is to quarterly monitor projected versus actual budget costs and give reports to upper management. Also, some firms make it a practice to do a mid-year review of all budgets with corresponding increases or decreases depending on firm conditions or unexpected needs.

An advantage of the goal-based budgeting system is that its development process almost guarantees a higher degree of accountability for results. With costs estimated and work plans made, all parties involved know what must be done, by whom, when, and for how much. By making the costs, both estimated and actual, a part of the business acquisition plan framework, firm management will have access to all the information needed to prove return on investment. An analysis can be done at year-end to evaluate the same.

**The Ratio Method**

One of the more complex budgeting methods, occasionally used in A/E/C firms, involves a strict return on investment mentality and is dependent on solid historical cost data and the strong ability to meet revenue goals. The ratio method posits that a dollar spent on a pursuit is tied to how much return is expected back for that dollar in terms of the amount of fee gained. This method is most common when there are multiple mature market segments in a firm that does fairly large projects.

For instance, a firm with a well-established market segment reputation in large healthcare projects might get most of its work via referrals or invitations to submit RFPs. This firm is reaping the advantages of years of preceding work that now cause the phone to ring. This market segment is expected to bring in a higher number of fee dollars for every dollar spent on business acquisition due to its mature standing in the market place compared to other market segments within the company.

Fee goals for each market segment are first established to meet the income needed for the firm’s business plan. Then the estimated costs are divided into the fee, which results in a percentage which is expressed as a whole number ratio figure. Ratios are applied to each market segment to arrive at a total budget for business acquisition. Ratios of 15 to 1 or higher are not uncommon for mature market segments; for new market segments, ratios can be as low as 5 to 1.

The disadvantage of the ratio method is that the fixation and time spent on arriving at an agreed-upon return can easily preclude the equally important task of developing specific business acquisition plan initiatives. As such, it becomes a much more complex version of the percentage budgeting method. It is also very dependent on good data both for expected fees earned and expenses burned. In fact, the “burn rate” is often used to describe how much is being spent before the expected fee goal is realized. The payment of earned fee can also distort the accuracy of the ratio method, with some clients using year-end payments to get expenses off their books and thus artificially hiking up the ratio goal for the next year since it is partially based on ROI from the previous year.

This method is also hard to use to budget for anything that is not project pursuit or market segment related, such as paying for a new company web site or newsletter or firm-wide branding initiatives. It is best used in a firm that is dedicated to stringent project cost control methods and one that is mature in several of its market segments. Another downside is the subjective nature of evaluating the relative ease or difficulty to gain work in a market segment, which is used to establish the ratios for allocation of budget resources.
Expense Categories

No matter which method is used, it is helpful to set up budget expense categories to begin tracking where funds are spent, especially for hard costs. It helps to also consider whether these expenses will be allocated to the overall firm as business acquisition overhead or to a particular market. Rules need to be established for when an expense is carried as either type.

Examples of hard cost expense categories include the following: photography, marketing communications collateral, market research, memberships and dues, award fees, reprints, tradeshow costs, promotional products, public relations work, advertising, meetings and networking events, marketing related training and education, software and hardware, travel, and fees for outside consultants.

In considering soft costs, group categories of personnel together, such as principals, marketing staff, business development staff, and other staff. It is usually easier to obtain a blended salary rate to use for each category of personnel. Start encouraging good time record keeping so that a historical database of time can be created to help gauge efforts for the future. After a while, most firms can predict the time needed for proper proposal response and interview preparation work where the majority of mixed categories of time are spent. With practice, the same estimates can be done for tasks as diverse as photography shoot coordination or interviewing new hires, as well as a myriad of other business acquisition items.

Practicing sound project management techniques such as scheduling, estimating, and work plan management will also help reinforce to others in the firm that resources for business acquisition activities are not unlimited and can be well managed just like projects. This also establishes a mindset that all parties need to be accountable to each other so that time and budget parameters are met.

Strategies for Large Expenses

Eventually every firm has a year where a big initiative is planned that stretches the status quo of previous budget years. These initiatives can range from a new firm wide branding initiative to a special anniversary celebration to a major investment in software or hardware. Often there are competing large initiatives from different departments, as well as training and development programs from HR, an implementation of new accounting software for finance, or a system upgrade for IT. All are major investments in a firm’s future and need to be evaluated and planned for with a strategic plan that evaluates which is the pressing need and that can create return on investment appropriately.

When a business acquisition initiative that has been green-lighted, but the money still won’t stretch, consider these strategies. First, plan for the work to be done in phases that can stretch over two or more budget years. Items such as new branding often take a year or more to implement fully, so incorporating two budget years can help spread expenses out. Also, development of new web sites, another large expense, can be built with the basic components one budget year and planned for expansion in the next.

Another budget stretcher is to ask for concessions from vendors about year-end billing practices. If money is tight at the end of the year, some print vendors will allow for payment of partial delivery and for a small fee store and bill the rest of the job as it is used, usually not exceeding six months. For others, payment can be stretched by phases, just like a design project, which can coincide with two budget years.

Paying for excellent project photography presents its own budget challenges and can represent a major expense. Some firms elect to play a broker role and fund their photo shoots by coordinating multiple parties to participate in cost sharing. They spend their staff time to coordinate other firm’s participation and fund portions of the base cost. Sometimes they simply reap the benefits of lower costs by having many participants, each at a lower cost than doing it alone. Other times, firms buy the use rights and then sell the marked-up photography to other parties, making a profit on their investment. Of course, all such arrangements must have the approval of the photographer involved before such deals are made. Also, written agreements are advised to prevent misunderstandings and provide clear guidelines on usage.

Another area where A/E/C firms are getting creative is by soliciting funds from companies that want to do business with them in exchange for face time with decision makers. One design firm has developed an annual planning retreat that is completely funded by product vendors, who are given time during the retreat to showcase their latest products and services. This strategy must be carefully negotiated to assure all parties meet their business objectives fairly.

Lastly, the outsourcing of items like newsletter creation and production is starting to find a place in the A/E/C world. Large publishing companies are looking for alternative revenue streams and are often better equipped with excellent writers and project management skills to accomplish the tasks involved at less cost than doing them in-house.
Emerging Trends

Several emerging trends suggest future pressures on business acquisition budgets. Most of these are tied to labor costs as A/E/C firms try new tactics and explore the limits of technology in order to gain competitive advantages.

The use of Building Information Modeling (BIM) by all aspects of the design and building industry is one of these trends. Firms are using BIM models to prepare for interviews and client presentations in order to prove the benefits they bring to their clients from better coordination of systems, site logistics, and phasing options. Since the creation of BIM models is typically outside the realm of the marketing department’s expertise, the costs to create these tools must be factored in as an expense. In some firms, internal costing to other departments is tracked and charged to the respective group and will show up as an increase in labor costs to the marketing budget. Creating a BIM model can easily approach $10,000 of additional labor time for a single pursuit.

The phenomenon of social media like wikis, YouTube videos, blogs and podcasts is another trend that is gradually gaining a foothold in professional service firms. The time needed to implement and maintain these new tools will need to be considered because, like the web before them, they can be labor-intensive.

For example, Keynote, a competitor of PowerPoint, has become a new norm for presentations. More graphic-intensive than its predecessor, software, hardware, and labor costs must be considered as you plan firm-wide implementation.

A budget for business acquisition is a road map that helps guide one of a firm’s most critical functions: getting work. With four different methods to use, there is no reason not to have a budget. Getting started may require using one of the more simplistic methods, such as the percentage method, with the plan to use the goal-based method the next year, once annual cost information is well established.

It is important to understand all of the methods so that as a firm grows or markets mature, the astute marketing professional can develop more precise budgets to better control costs. Being skilled in all of the methods can be useful to cross check budgeting work and help justify costs. Also, in some situations, a combination of methods may be desirable to allow for stringent cost control for some markets and more financial cost flexibility for others.

Done well, a business acquisition budget can help measure return on investment, build accountability, test plan goals, and be an investment in a firm’s future success. Using the methodologies for budgeting alone, or in tandem to verify each other, can help marketing and business development professionals add value to their roles and build the credibility they need for career success.

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Recommended Reading


About the Author

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