Financial management is necessary for two very simple reasons: first, because we want to do our very best work; and second, because we need to support our practice financially.

compensated for services, but it will require a major shift in residential practice throughout North America. Most of Europe already practices this way. The interior designer or architect designs the space and specifies the furniture; the client then buys these items directly from the manufacturer.

Contract

The other major segment of the design industry is the contract design practice. These practices tend to be larger than the residential practices and are composed of firms that have 20 to 200 employees. Often these firms are divisions within architectural firms or are stand-alone interiors practices that often partner with architectural firms. Much like the residential practice, the stand-alone contract design firm usually has one to three leaders—or principals—within the practice who are the standard bearers for the design direction of the firm. These practices can focus on corporate, institutional, health care, retail, hospitality, and education, just to name a few areas. What is common among all of these practice groups is the way most of them receive compensation through an hourly-based structure.

Generally these practices charge an hourly fee based on a commodity compensation structure of cost per square foot. During the last decade or so contact design services have come under great pressure by the real estate community, resulting in tighter profit margins. At the same time, clients are not only expecting more service but also better quality of services at a faster turnaround time. Increased client expectations, coupled with higher salaries and expanded benefits, have resulted in a reevaluation of the compensation philosophy of the contract practice. As we shift from a "project-based" practice to a "relationship"-based practice, the value of the service is becoming more important than the time it takes to produce it. This strategy is borrowed from the financial consulting firms, which discovered some time ago that the impact one has on a business is more valuable/important than the time it took you to evaluate that business. More and more design firms are "consulting" with their clients long before there is a project. Assisting clients in the evaluation of existing real estate and strategy development to support the client's expansion goals are just two examples of consulting services.

Most contract projects are broken down into several phases, starting with programming and ending with construction administration and client move-in. Executing each of these phases requires certain talents and expertise to