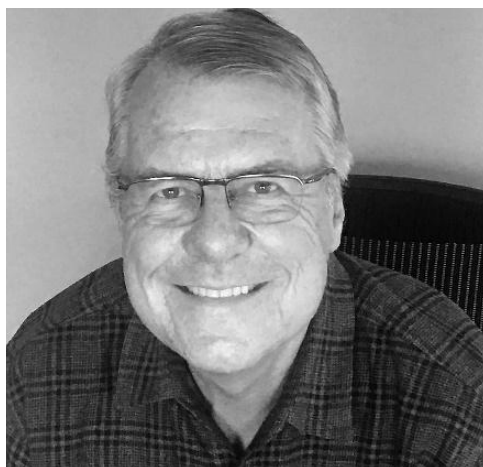




# Market Expectations in a “New Normal”

DesignIntelligence  
Quarterly



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*Rapid-response and long-term strategies require granular, client focus. Opportunities abound. Ken Sanders shares post-pandemic market thinking.*

**DesignIntelligence (DI): Anticipating a gradual post-COVID recovery and return to work after this sheltering and economic hiatus, how do you see firms adjusting their market expectations for volume and backlog?**

**Ken Sanders (KS):** My first suggestion is not to have a broad expectation about future volume and backlog. COVID-19 is an unprecedented event and trying to predict or compare the recovery to come with any prior downturn is not going to be very helpful.

Here in the U.S., never in our history have we lost over 26 million jobs in five weeks. And there are more job losses to come. No one knows how long it will take to restore those jobs or return to a similar level of economic activity after a phased reopening, which is just starting.

The answer really needs to start with clients. AEC firms are confronting the short-term and long-term impacts of COVID, but so are their clients. Leaders should look at this from their clients' perspectives. How is this affecting *their* business, *their* customers, *their* backlog?

Starting with clients is the key to unlocking understanding, more so than comparing this to past economic cycles. For example, COVID has been a disaster for some retail chains and small businesses, but others, like Home Depot, Walmart, or Amazon are doing fine. It's very different depending on the client and market.

In the healthcare market, where one might assume things are bullish, they're not. Many hospitals, not just in the U.S. but around the world, are struggling with empty beds. It's one reason why phase one of the planned reopening allows the return of elective surgeries. Without them, hospitals have had a problem.



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The strongest AEC firms are staying close to their clients, and undertaking a deep dive, granular assessment and analysis of their clients, their markets, and projects to better understand the future. That's the way to do it. They're positioning themselves to be agile and move quickly as the world continues to change rapidly around them, to deal with the challenges and opportunities that are still unknown.

Some firms I talk to are looking at their backlog, not just monthly, but daily because things are changing so quickly. At the same time, they're staying strategic and thinking creatively about new opportunities. You have to do both.

This is an unprecedented, black swan event. It's never happened before in our lives. It's unlike any other economic cycle we've been through, and it deserves its own unique response.

**DI: The other sense of market is geographic. Any comments on building type or regional markets?**

**KS:** My answer is going to be granular again. Some retail chains have been shut down completely while others are doing fine. That's related to their government classification as essential or non-essential. It has nothing to do with their leadership or performance.

It's the same with entertainment or film

production. Theater chains are closed, but streaming services like Netflix have benefited. They're doing great. Amazon has never been in a stronger demand position, and they're continuing to invest in expanding their distribution network globally. That's an example of how you've got to look under the hood at specific clients and what they do to understand trends within that marketplace.

One company I've been thinking about a lot, a great company, is Disney. They're in a tough position. Most of their revenue comes from theme parks, hotels, film entertainment, and cruise ships, all of which have been shut down.

**DI: All discretionary.**

**KS:** Yes. That's who they are. By design they're a non-essential company. Much of their revenue stream has stopped.

As the economy slowly reopens, theme parks are going to be an important case study in how good design of public environments shifts long-term. It's not just about public policy, screening, PPE, and social distancing. It's about how we design public environments where people still feel safe. Perception is reality. In the case of Disney, will visitors ever feel safe in the same way again packed into lines and along parade routes at theme parks? That's an interesting question. I don't know the answer, but that's one example

where the "new normal" has yet to be understood.

The issue is: can AEC firms help clients like Disney? Absolutely! They are going to have to reinvent how they entertain customers in ways that still generate good revenue and margins, but where their customers feel safe. That is going to be a big transformation.

Similarly, there's a huge opportunity to reinvent dining or retail venues as building types that are both experiential and safe. The issue of safety is not going to go away when the economy reopens. We're going to bring that with us going forward as individuals, families and groups.

The same with healthcare. How can healthcare environments be more flexibly designed to deal with sudden changes in demand? And based on what we're learning about working from home and virtual collaboration, what are the new mobility strategies? How will they affect workplaces and real estate portfolios of the future? All those are opportunities for design innovation in places where people can be creative, not focused on cutting expenses and retrenchment, but thinking about this as opportunity.

**DI: Great observations. Rather look at overall markets or economic trends, we need specificity and granularity - the**



**conditions for this client, segment, or building type. In contrast to what we see on television every night, when it comes to markets, we're not necessarily "all in this together."**

**KS:** Exactly. Firms need to dive deep into their own client base. I can think of three leading healthcare firms. What they're dealing with is going to be very different depending on the services, project types, and geographic markets they're providing. This question about broad brush predictions... all of us need to set those aside and look at individual clients and markets. That detailed analysis will yield a better understanding.

**DI:** What about new services? I talked to a national leader of a sports design practice. As a forethought research exercise, they're doing an investigation on what it means to hold mass sporting events. What does that mean when you get out of your car, scan your ticket, have to go to the bathroom, the hot dog line. Can you still tailgate? Will there be a section for the young, carefree, crazy, drunk people still willing to sit together? And another for those of us who are more careful, and perhaps willing to spend more for our ticket because we're spaced out every four seats? That's one example. Does anything else come to mind?

**KS:** That's a great example. The safety

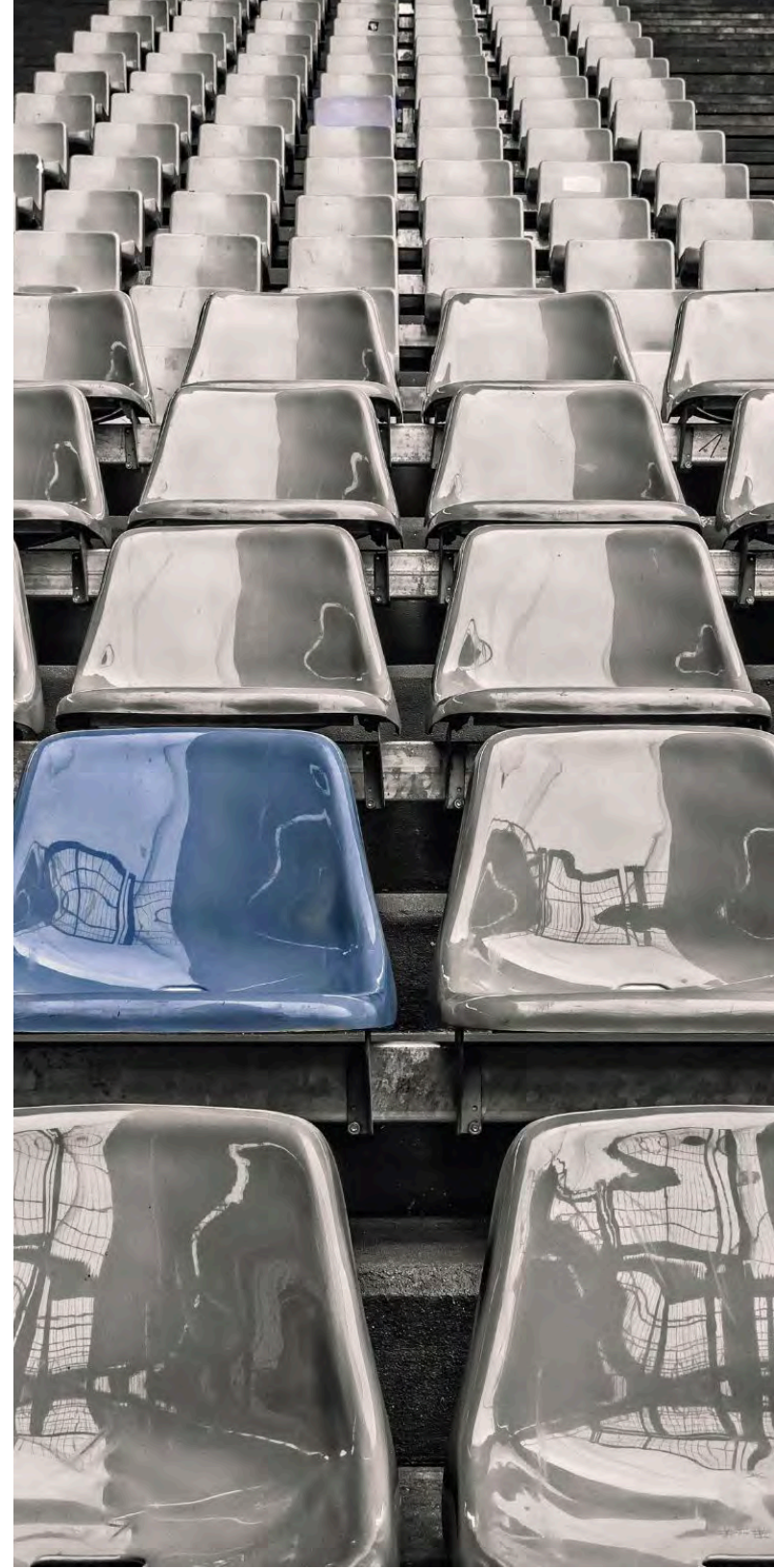
overlay is going to influence and affect the design of entertainment and sports venues. Again, it's not just about the practical considerations of keeping people safe, it's about the emotional dimension of that.

People have to feel safe whether they are or not. It's important to differentiate between those two. I couldn't agree with you more. That is a new frontier with opportunity for firms regardless of the project types or markets they work in.

The other observation is that all of us have wanted for years, if not decades, to transition away from charging by the hour and move toward charging for value. One of the things I'm seeing now is clients valuing and rewarding speed, agility and responsiveness. Because they're confronting a fast-changing uncertain world they want partners and advisors who can respond with them.

Leaders, individuals and firms that can demonstrate those characteristics are in better position for higher margins and repeat business.

**DI:** I hope people are smart enough to seize the opportunity to redirect the way they provide services and get paid, to be quicker and more valuable. If we don't get it now, I don't know if we ever will.





**KS:** A crisis can produce opportunities to rethink value propositions and rewards.

**DI:** You started with clients. You're still serving on corporate boards and keeping in touch with clients and your network. You're one of the first to articulate the possibility that this sheltering experience could result in a reduced demand for office space. How do you see this forced experiment we've had of remote work and work from home affecting clients' facilities planning thinking?

**KS:** We are all learning more about what works and what doesn't work in terms of virtual collaboration. The ability to collaborate and collaborate virtually is

foundational to effective cross-disciplinary AEC teams, which almost always involve talent from multiple companies. This notion of being able to collaborate virtually well remains important.

There are four classic modes of work: social, learning, collaboration, and focused. Some people add a fifth: rejuvenation. When you think about it, only social truly needs physical interaction. Focus and rejuvenation are introverted, where you're mostly spending time on your own. Learning and collaboration are increasingly happening virtually, online. Not always, but increasingly.

I'm not arguing, and I don't know anyone who does, that teams can work as effectively 100% of the time remotely. Physical connections are important to building relationships and trust. Physical separation is not emotionally sustainable. Virtual cocktail parties are fun on Facebook, but they're already growing old and tired. People are saying, "That was fun the first or second time, but now I want to be with my friends. And I can't."

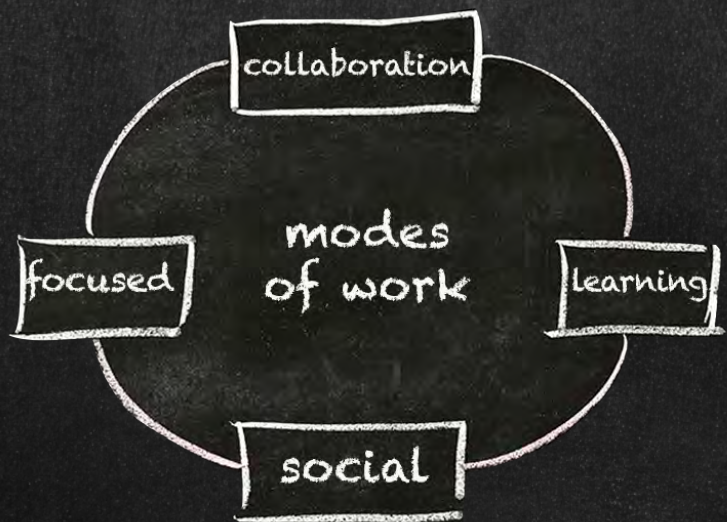
At the same time, firms are discovering teams can continue to produce, be productive, and are becoming more comfortable with collaborating online and virtually. The missing ingredient is

they don't have physical contact, which is a problem. That needs to be restored.

But do people really need to be 100% co-located 40 hours a week, full-time? Maybe they can get together one or two days a week and they'll be fine. The question is what is the right balance going forward? How can we leverage what we're learning?

The flip side is also true. People have learned that working from home may or may not be a good place for focus depending on the presence of a spouse, partner, children, or roommates. There are many variables and dimensions. For AEC firms, it's an opportunity to demonstrate to ourselves and to our clients what we've learned through this crisis. Ways that create new value and better experiences. It may also be a headwind in terms of corporate real estate because people may be more comfortable than they were before allowing people to spend part of the week working from home or off-site. They may implement more aggressive mobility strategies and desk-sharing, reducing overall demand.

**DI:** I love your breakdown of the four ways of working. When you look at "work" analytically and break it down into those functions, only one is social. Rather than assuming, "Work is work. We go into the office, have lots of





**meetings, they're inefficient, the processes are what they are," if you analyze the functions - only one requires being together.**

**KS:** Social activities demand physical connection. You want to hang out in person. The other four, in many but not all cases, can be accomplished virtually. What's the right balance? Perhaps it's not to have everybody physically co-located 100% of the time. I think that model is going to fade away.

It's an exciting design opportunity, not just from the standpoint of workplace design, but real estate strategy and designing your portfolio real estate and dealing with density and mobility. I'm looking forward to seeing the work that firms are going to do in that regard.

**DI: Our unanticipated external event has accelerated what we're talking about.**

**KS:** Yes. I'll tell you another story which addresses your question. One of the companies on which I serve as a board member is Clarus, a product manufacturer. They're one of the leading manufacturers of glassboards. Basically, a glassboard is a whiteboard made of glass. Clarus offers them in a variety of fixed and sliding and portable configurations. They are popular products in

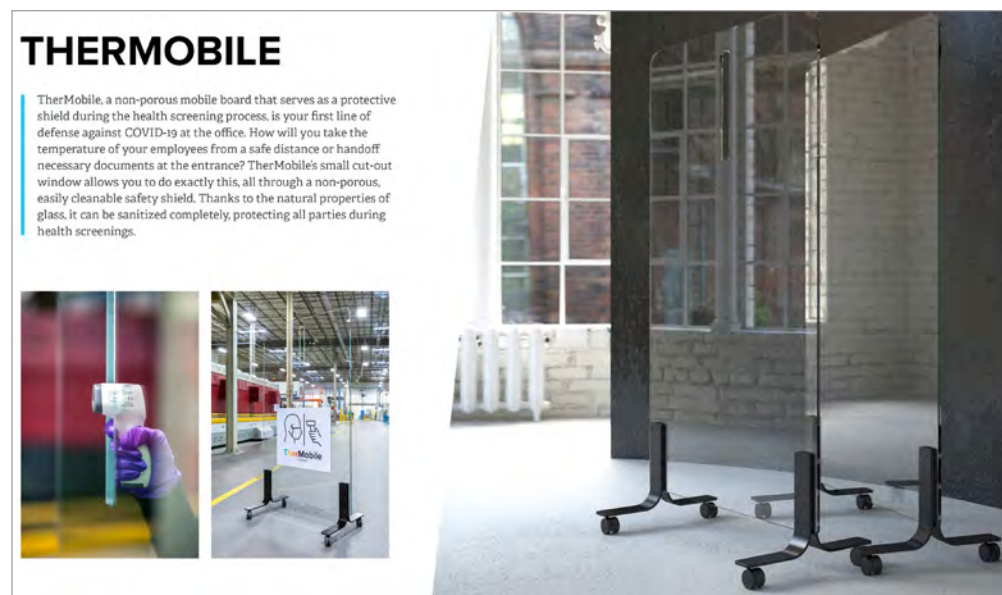
collaborative workplaces, hospitals, schools, sports lockers rooms.

In response to COVID-19, Clarus developed a cool new product called TherMobile. It's a glass partition on wheels with a vertical slot in the middle at eye level that allows temperature checks while minimizing exposure between the person being checked and the person performing the check. The screening of workers, guests and visitors will be key as we re-open. How do you make sure they're not sick?

This product facilitates that. It provides a transparent safety barrier between the two people involved, but through the slot

it allows the visitor to get tested. As companies reopen their workplaces, as nursing homes reopen to visitors, as healthcare screening is strengthened at airports and hospitals, this product helps people stay safe, and has amazing potential.

But the real story is that Dony Dawson, VP of Design at Clarus, and his team developed this product in seven days. From napkin sketch to manufactured product for sale, seven days. It was an incredible turnaround, and relates to my earlier point about speed, responsiveness, value, and rewards. Being smart and moving fast usually generates rewards. With TherMobile, three things came



*Thermobile, courtesy Clarus*



together. First, recognizing market opportunity. Second, executing quickly. Third, applying design innovation to create new value. All three of those things happened at the same time. Because Clarus' design and manufacturing teams are co-located in one facility, their integration played an important role in rapid prototyping, turnaround, and being able to pull this off in seven days.

It's a wonderful story and amazing credit is due to the team at Clarus. A great example of how you create opportunity out of crisis. The worst thing any company can do is to retract into survival mode.

As a leader, of course, you need to be realistic, willing to make tough, painful decisions. You have to be transparent and authentic in communicating with all your people through good times and bad. But you also need to be creative and agile in exploring brand new opportunities. And you need to encourage everyone in your firm to do the same. Good ideas can come from anywhere. That process starts with your clients and customers and looking at problems from their perspective.

**DI: That's a fabulous story on so many levels. Our conversation is about markets. Your story is an example of seeing a need, imagining the market**

**and filling it - an example of what can happen at record speeds in an integrated way when it has to. For thousands of years architecture has been thought of as slow moving. "Good design takes time..." Architects haven't valued speed despite our clients valuing it. Most of the AE community has complained for decades about the accelerating pace rather than doing something about it and responding in a different way.**

**Your quick response story makes me wonder. If firms are now monitoring and thinking daily, vs. in the past, annually or not at all, extrapolating the status quo into the future, is there another side to that continuum? I would imagine firms might now have rapid response plans, Plan Bs, Plan Cs, and "Black Swan" Plans now, but is there a need to balance the quick / agile perspective with a longer-term view?**

**KS:** It's both/and. You have to get more granular and assess what's going on weekly or daily rather than monthly or quarterly. But in a tactical granular way. That's important to navigate through a rapidly changing business environment. But don't take your eye off the long term. Stay strategic, creative, and opportunistic.

Many firms are experiencing a tough environment. Projects put on hold.

Projects canceled. Suddenly you look at your staffing capacity and pipeline and there's an issue. What's unique about this circumstance is the speed at which it's happened. Even when the financial crisis occurred, notwithstanding the Lehman bankruptcy drama on that infamous Monday morning, it took months for it to play out, and years to recover. Here, this has happened in weeks. It's heartbreaking and unsettling. People are losing their jobs. They're losing their ability to provide for their families. To cope, I believe one of the things you should do is cut from the top. The top folks should experience salary cuts, cuts to their bonuses, or to their compensation package first. Rather than letting somebody go, you can also look at salary reductions and/or reduced workweeks. There's a lot available to firms to sustain employment and navigate through this environment.

Many people, of course, are losing their jobs because the restaurant, retail store, or hotel they worked at is closed. Working from home is a white-collar privilege, after all, and workers in hospitality, retail and restaurants don't get to work from home. The only place their job exists is in that facility. So, there's been a disproportionate impact on lower-income and blue-collar workers. Those of us in service or high-tech businesses just go virtual and on we go. The disproportionate social impact, not just in

the U.S., but globally, is part of the tragic reality we're grappling with. But whatever your circumstance as a leader, you need to realistically align your investments with the work that's available to you while also doing your best to preserve jobs and employment.

I've been pleased to see the companies I work with doing just that. That's been a good sign. But we're far from done. We still have a lot of choppy water ahead of us, but I'm seeing strong, enlightened leadership from companies across the industry.

**DI: That's encouraging. Resilience seems to be needed more than ever, not only in leadership, but in our buildings. If there is too much space, or the wrong kind of space, will clients take a more serious look at existing building stock, building reuse, and repositioning? The people leading the sustainability movement have been arguing that for a long time.**

KS: Great question. This crisis has underscored the importance of real estate flexibility and adaptability. We're seeing convention centers turned into field hospitals. We're seeing empty hotels turned into housing for the homeless. We're seeing these crisis-driven real estate transformations. When we design facilities in the future, it's going to be

increasingly important to think about different scenarios and how this facility could be transformed into something else.

We've been talking about that with regards to parking garages for years. There's an oversupply of parking garages when you think about the transition toward ride-hailing services and eventually self-driving cars. What's going to happen to all those garages? For the garages we build now, can we design them in a way that helps facilitate their transition into a different building type down the road rather than tearing them down and building anew?

The sustainability and environmental responsibility component of that has only been underscored by this crisis. Going forward, the notion of flexibility, adaptability, and resilience will be an even more important ingredient of real estate design.

**DI: Agreed. If granularity and forging opportunity from crisis are key, if you're back in the position of running a design firm tomorrow, or advising somebody who is, what strategies would you deploy to gird your firm for future cataclysmic events?**

KS: Staying close to your clients should always be a top priority, especially during



times of rapid change. Flexibility, diversity, and agility are more important than ever. And investing in scenario planning. What would we do if this happened? What would we do if that happened? I'm not claiming anyone could have predicted this once-in-a-lifetime pandemic. Black swans are called that for a reason, but the value of scenario planning is it allows you to preemptively establish priorities.

If you suddenly had a huge surge of new work or clients, how would you deal with it? If you suddenly confronted an economic downturn, how would you deal with that? I have found that firms who spend some time on scenario planning are best equipped to navigate through uncharted waters, because those priorities and sensibilities are already established. Then it's about making decisions and acting. You're not stuck like a deer in the headlights in analysis paralysis. You're not over or under-reacting. You're simply better prepared.

Strategic outsourcing is another opportunity. I like to look at outsourcing based on a yardstick that measures client value and client experience. On the one end of the yardstick is, "What does my firm do that is closest to our client and creates the most differentiated value and experience for them? And strengthens their loyalty and generates repeat

business?" That's one end of the yardstick. The other end of the yardstick is, "What things are central to running a business, but my clients may not even know about, and they don't create differentiated value?"

If you think about all the things a firm does, you can line them up on that yardstick. Those activities that are furthest from your clients are often the ones best suited for outsourcing. For example, do you really want to run your own phone system? Your own IT security? Your email system? Computer servers? Most people don't manage their own real estate. They've outsourced that to a real estate company to manage for them.

Activities furthest disconnected from creating differentiated client value are the best candidates for outsourcing. That's not to say those services or the people providing those services aren't important. Those activities are essential. But it's healthy to assess what's vital to keep inside your firm and what things you can invite others to take care of for you. That's one way of purchasing flexibility and agility. Coming through this, I predict that many firms are going to take a renewed look at strategic outsourcing.

From a construction or product manufacturing perspective, we're also seeing reassessments of global supply

chains and the associated risks.

Independent of politics, companies want to understand more about where their products are coming from. Consumers too. Where was this thing made? People are leaning more towards localized procurement when possible. That helps the environment and improves supply chain reliability and robustness. The crisis has illuminated the risks when a company or a government is dependent on one or too few suppliers.

And finally, as I mentioned earlier, AEC firms should revisit their own real estate portfolios and strategies based on what they've learned during this shelter in place phase. Think about what a safer workplace looks like. How much physical time together is required? Can companies produce the same or better results with smarter mobility strategies and less real estate? That strategic question will take some time to figure out, but I would suggest spending time on it. All these are design opportunities. Not only for clients, but for AEC firms.

**DI: Everything you talked about reminds us to look beyond ourselves. It's not just about us.**

**KS:** Yes. I'll share one interesting statistic. In the month of March this year, total deaths in the U.S. are down compared to the same month last year. I think we all



believe and understand the economic shutdown has reduced COVID-19 deaths. But you know what? It's reduced all deaths. The shutdown has saved more lives than have been lost due to the virus. I'll repeat that. The shutdown has saved more lives than have been lost due to the virus. It makes sense. There are fewer car accidents. There are no elective surgeries. There are no bar fights. The bars are closed.

I don't know anyone who would argue in the interest of saving lives that we should continue sheltering-in-place permanently, that we should be locked down forever. The point is there is a gigantic push and pull right now between health and employment. It's epic and unprecedented and the stakes are huge. It remains unresolved, not just in the U.S. but globally. That push and pull is going to continue long after COVID-19 is extinguished. There are going to be long-term impacts on culture, health, emotional safety, and environmental design. Those impacts remain unknown. I'm saying this as an optimist. In

architecture, engineering, and construction firms, uncertainty and change are scary and challenging. But they are also fertile ground for creating new opportunity. Even if this virus is fought back and beaten in short order, its long-term effects and impacts are going to continue. People should think and be creative about that, to transform those shifts, when and how they occur, into new opportunities for themselves and their clients.

**DI: Great insight. This is not just a guns and butter economic decision. It's an economy versus life and quality of life decision. It's not a four-week decision, it's a multi-generational decision.**

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Ken Sanders, FAIA, is Managing Principal of DesignIntelligence Strategic Advisors and a former Managing Principal and Board Member of Gensler.



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