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DiCicco, Gulman & Company LLP's 2011 Architectural Study finds increased profitability

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Boston-area architectural firms have increased profitability, improved their utilization rate and boosted their working capital, according to the 2011 Architectural Study by DiCicco, Gulman & Company LLP (DGC), a CPA and business consulting firm specializing in the architecture and engineering (A&E) industry.

In spite of the positive trends, the study cautions that continued improvement is needed for firms to return to pre-recession health. DGC's study also predicts that consolidation will continue, not only for economic reasons, but because a growing number of firm principals are at or near retirement age.

"The good news is that, on average, firms saw 8.7% of their net fees drop to the bottom line, compared to last year, when the average firm realized a meager profit of just over 1%," said David Sullivan, the partner in charge of the A&E group at DGC.

While some firms continue to operate at a loss, two thirds of firms were profitable, compared with half of all firms in 2009. Profits averaged $9.27 per direct labor hour, up from just 43 cents in 2009.

In addition, the DGC 2011 Architectural Study reports that the average utilization of A&E firms for 2010 increased to 61.6% after dropping to 58.9% in 2009, the lowest chargeability rate on record. A utilization rate of at least 65% is considered healthy.

In addition, the average firm retained 29% of net fees for working capital, which is higher than the historical average. Working capital of 20% to 25% is typically necessary for a firm to finance its operations.

The direct labor billing multiple of 3.21 was higher than the 3.0 rate necessary to produce a reasonable rate of return; however, the rate may be artificially high when compared to historical trends because of the impact of pay cuts. Average total hourly wage rates were stable in 2010 compared to 2009. Employees cost an average of $36.37 an hour in 2010, compared with $36.94 in 2009.

Addressing the increase in mergers and acquisitions, Sullivan said, "The primary reason is that many firms are struggling to grow organically and it may take years before the industry fully recovers from project cancellations, unavailability of financing, high unemployment and fierce competition for few projects."

With many principals at or near retirement age, he believes sales, mergers and changes in internal ownership will continue over the next three to five years.

The study, which includes articles and advice from industry experts, recommends that architectural firms:

Â· Use realistic budgets when pricing jobs

Â· Capitalize on their niches, but remain diversified

Â· Promote and define their value propositions

Â· Expand relationships with current clients

Â· Continue focusing on financial performance and stability

Â· Pay attention to cash flow

Â· Begin addressing transition issues

Â· Add new talent when needed and invest in technology as needed

The study, which is based on information gathered from more than 30 prominent architectural firms, includes a detailed analysis of utilization, billing multiples, overhead rates, balance sheet ratios and historical trends for 2010, all of which are compared with national standards.

For a copy of the 2011 Architectural Study, visit www.dgccpa.com or contact Kate Ferenczy at kferenczy@dgccpa.com or 781-937-5320.

About DiCicco, Gulman & Company LLP

DiCicco, Gulman & Company LLP (DGC) is a CPA and business consulting firm specializing in A&E firms, as well as private clients, real estate and commercial business. As an independent member firm of Moore Stephens North America, DGC has access to a global network of technical expertise and best practices, which result in elevated performance standards. For more information please visit www.dgccpa.com or call 781-937-5320.