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DiCicco, Gulman & Co.'s annual Architectural and Engineering Study shows revenue increase for 2014

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The results of the 2014 northeast survey of architecture and engineering firms are in, and the overarching theme for firms is growth. DiCicco, Gulman's annual survey benchmarks financial performance and other key indicators based on input from over 40 architecture and engineering firms.

Positive Growth

As the economy continues to recover, the architecture and engineering industry has shown strong year-over-year growth. In 2014, net fee revenue increased 11% for architecture firms and 8% for engineering firms. Based on anecdotal results through the first six months of 2015, this pace is continuing for many firms.

In order to accommodate this level of growth, firms are investing in people and technology and many firms are also expanding their office space. From a staffing perspective, the average firm added 5% to their ranks in 2014. This has contributed to a shortage of available talent in the marketplace and placed significant upward pressure on raise and bonus levels as firms focus on retaining their current staff.

In addition to higher costs, another trend that is impacting some firms' profits is the decrease in the size of average projects. In recent year's backlogs have been comprised of smaller scale projects as opposed to in the past where a few large project would bring in the majority of a firm's revenues. This change requires a different approach to project management and project execution and some firms are struggling to adjust.

The good news however, is that a majority of firms have been able to increase their fees or improve their project management practices in order to increase their profit margins. Of the architecture and engineering firms that reported positive growth in 2014, 60% also reported increases in pre-owner bonus profits. And this increase in profitability is critical, because it takes profits to reward staff, invest in opportunities and successfully manage an internal transition.

Billing Multiple & Utilization Rates

As you might expect in an improving economy, the average billing multiple, which informs a firm's pricing decisions and evaluates how effective a firm is at project management, increased in 2014. The average billing multiple for architectural firms in 2014 was 3.14, a healthy increase from the 3.05 mark in 2013. Engineering firms also saw an increase in billing multiples, up to 3.07 from 3 in 2013.

Utilization rates, the most important measure of how effective firms are at managing their staff, were also up in 2014, with the average firm achieving an overall utilization rate of 64% (compared to 63% in 2013).

The target rate for overall utilization of architecture and engineering firms is 65%. More specifically, the benchmark for a firm's principal group is 55% and 85% for junior staff. Principal group utilization in 2014 for architecture firms was 50% and 48% for engineering firms, while staff utilization was at 77% for architectural firms and 75% for engineering firms.

Working Capital and Collections

One of most important decisions firm leaders make is how much profit to leave in the business at the end of a year. The key performance indicator that can help inform that decision is the working capital to net fee ratio. Generally speaking, if a firm is collecting its receivables in 90 days, it should target a working capital to net fee ratio of 20 to 25%.

Over the years, that level of working capital has proven to be the dividing line between firms that successfully manage the ups and downs of the economic cycle, and those that falter.

The 2014 results show that on average, architecture firms were collecting their receivables in 103 days, and had a working capital to net fee ratio of 21.1%.

Engineering firms were collecting their receivables in 91 days, and had a working capital to net fee ratio of 21.3%. Clearly, the time it takes firms to collect their receivables has room for improvement.

Overall, architecture and engineering firms have a lot to be optimistic about. As the economic recovery continues to take hold, it will be important for firms to continually assess whether their growth strategies are actually improving their long-term viability and profitability.

David Sullivan, CPA, and Chad DaGraca, CPA, are partners at DiCicco, Gulman & Co. LLP, Woburn, Mass.