



**Financial Characteristics of High-Performing Firms
– and How They Became One**

Course Number 40107742

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Approved Provider: Enoch Sears, AIA

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Questions related to specific materials, methods, and services will be addressed at the conclusion of this presentation.

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Course Description


Did you know that 25% of A/E firms of all sizes consistently make 20+% Operating Profit Rates and deliver 30+% Pre-Tax Returns on Equity?

Moreover, there is convincing evidence that these firms are not 'one-year-wonders'. These High Performing Firms are realizing virtually double industry-average financial results year-after-year. Discover which specific operating & financial characteristics – Key Performance Indicators (KPIs) – these High Performing Firms have in common, and how their practices achieve them.

Then, investigate several identifiable practices – not all financial – High Performing Firms incorporate for consistent success and profitability.

By the end, you will be able to evaluate your own firm's operational and financial performance, and analyze practices that can be incorporated into your practice to achieve and maintain above-average success year-after-year.

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Learning Objectives

At the end of the this course, participants will be able to:

1. Using the most current and comprehensive A/E industry survey data, participants will compare and discuss specific financial performance KPIs that determine High Performing Firms' achievements vis-à-vis the rest of the A/E industry, and practices they use to achieve them, practices that participants can use within their own firms.
2. Participants will explore several project management techniques of HPFs that can be implemented into their own firms to improve effectiveness and efficiency – the primary key to project and financial success.
3. As an added perspectives for leadership and management focus, participants will review and evaluate several creative and innovative philosophies and goals firms use to differentiate their practices.
4. Participants will evaluate other KPIs and practices demonstrating how HPFs maintain their success year-after-year, particularly greater reinvestment of profits for training and technology.

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Speaker

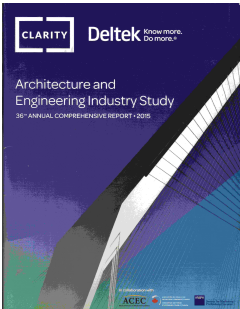
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CFO of A&E firms
Past-Chair of AIA Chicago's Practice Management KC
Member of, contributor to National AIA's Best Practices Committee
Member of ACEC's Management Practices Committee
AIA/ACEC Peer Reviewer

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Acknowledgements/Credits

Deltek
34th, 35th and 36th Annual
*Architecture & Engineering
Industry Study*
Financial Databases
2012, 2013 & 2014



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Acknowledgements/Credits

PSMJ - Dave Burstein
Internal A/E Industry
Financial Research
Circle of Excellence



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What Is a High Performing Firm?

Survey Data Analyzed Three Ways

No. 1: No. 2: No. 3:

| | | |
|------------------|--------------|-------------------------|
| All Participants | Small Firms | Architecture & AE Firms |
| HPFs | Medium Firms | Engineering & EA Firms |
| All others | Large Firms | |

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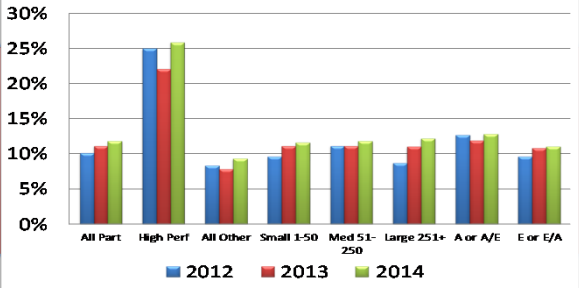
What Is a High Performing Firm? Selection Criteria for HPFs

- 3.0+ Net Labor Multiplier
- 20+% Operating Profit

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What Is a High Performing Firm?

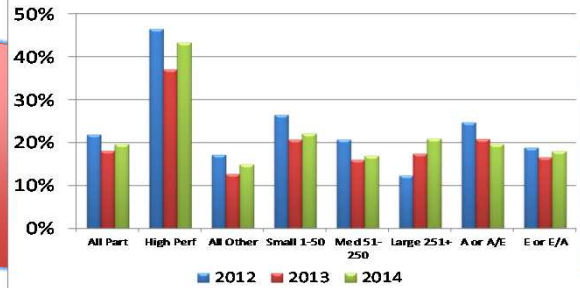
Operating Profit Rate %



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What Is a High Performing Firm?

Pre-Tax Return on Equity



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What Is a High Performing Firm? Size Breakdown of High Performing Firms

- 25% of all firms qualified as HPFs
- 28% of Small Firms (1-50 employees)
- 23% of Medium Firms (51-250 employees)
- 24% of Large Firms (251+ employees)

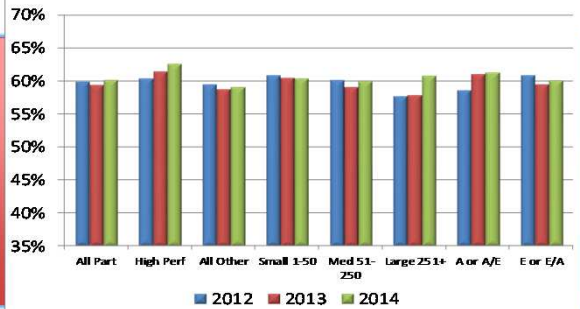
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KPIs With Low Correlation to Operating Profits

- Utilization Rates
- Salaries
- Benefits
- Overhead Rate

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Utilization Rate

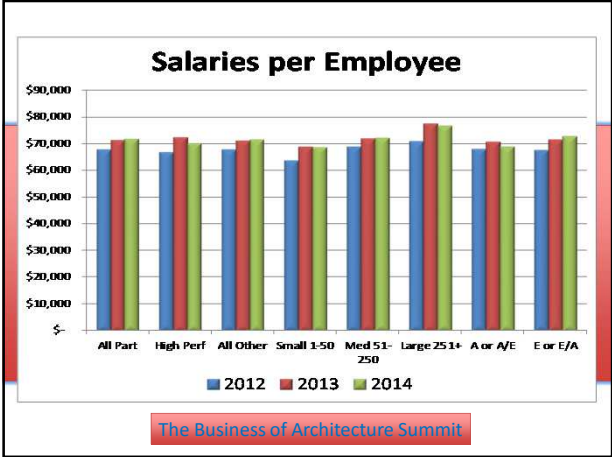


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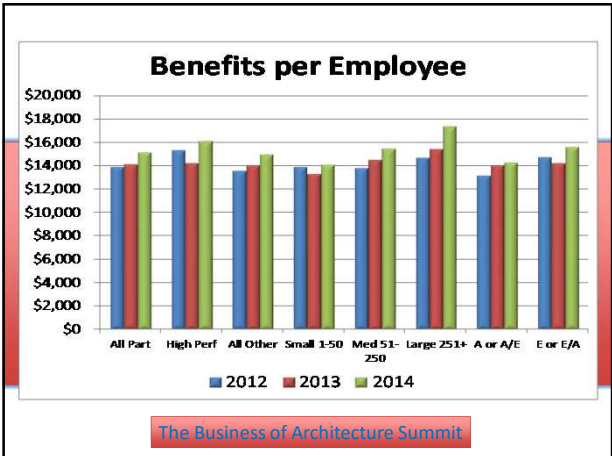
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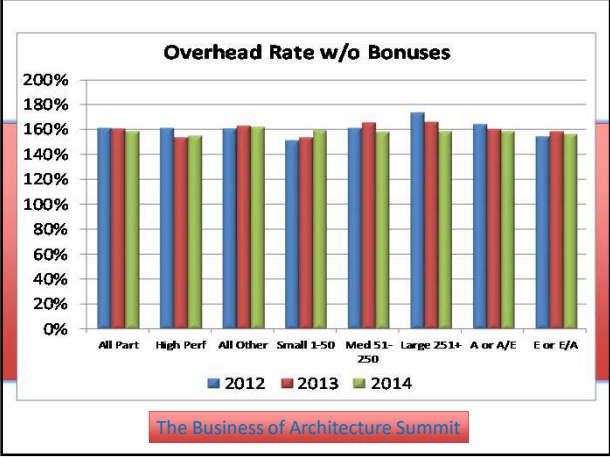
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KPIs With Low Correlation to Operating Profits

- Utilization Rates
- Salaries
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- Overhead Rate

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So What KPIs Do Correlate With High Operating Profits?

Project Profitability

- Net Labor Multiplier
- Net Revenue per Employee
- Bonuses

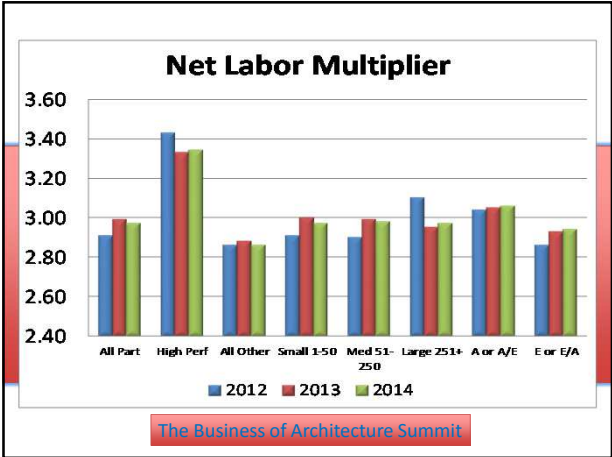
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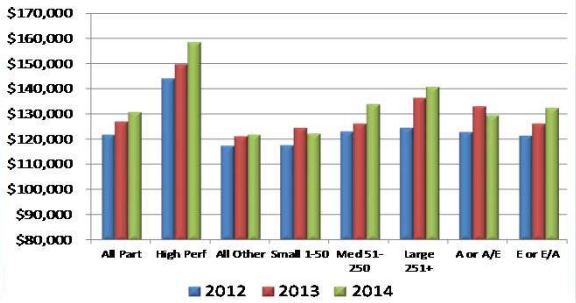
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Net Revenue per Employee



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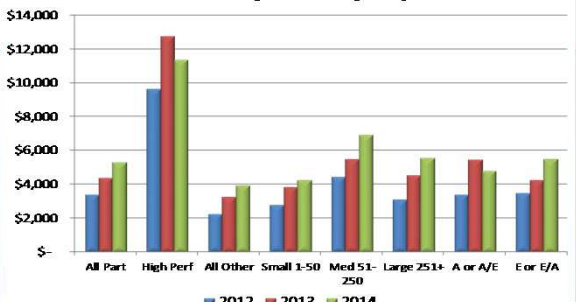
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Bonuses per Employee



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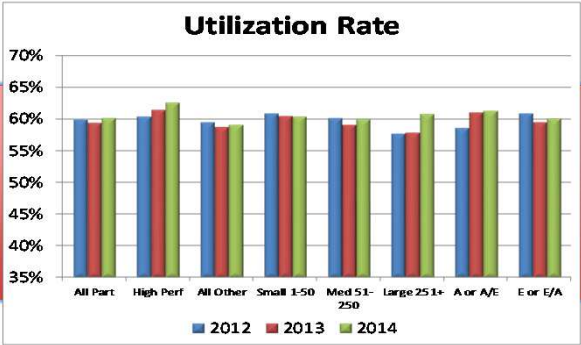
KPIs Correlated to Operating Profit

From PSMJ:

- Utilization Rate 11%
- Net Labor Multiplier 27%
- Total Labor Multiplier 47%

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Utilization Rate



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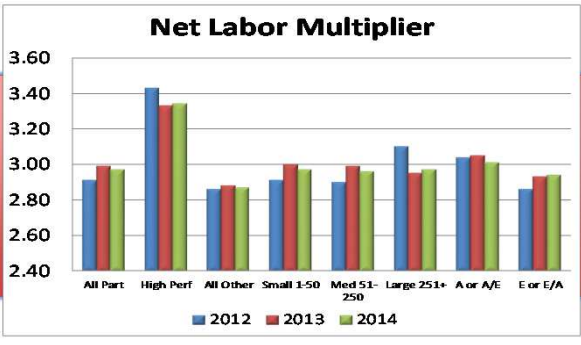
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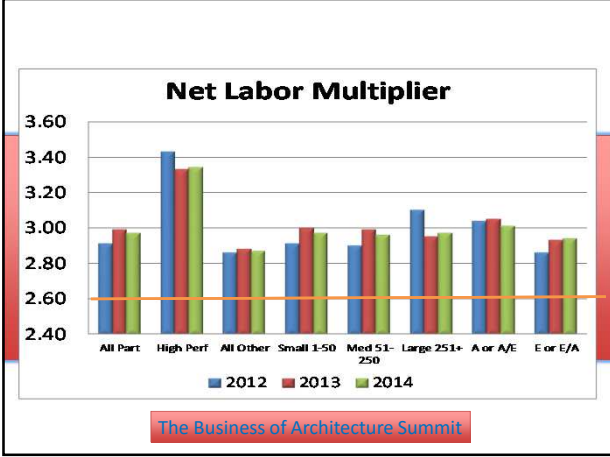
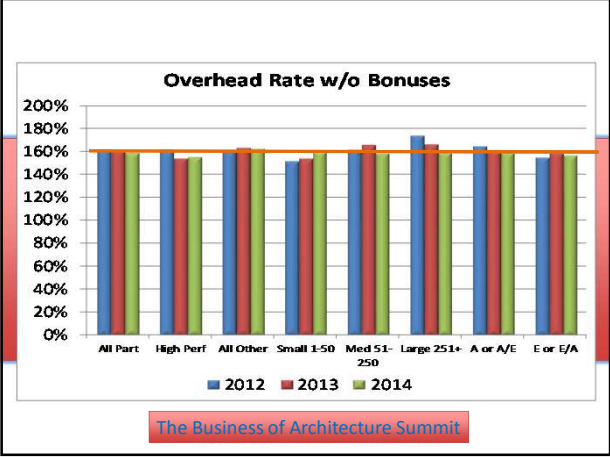
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Net Labor Multiplier



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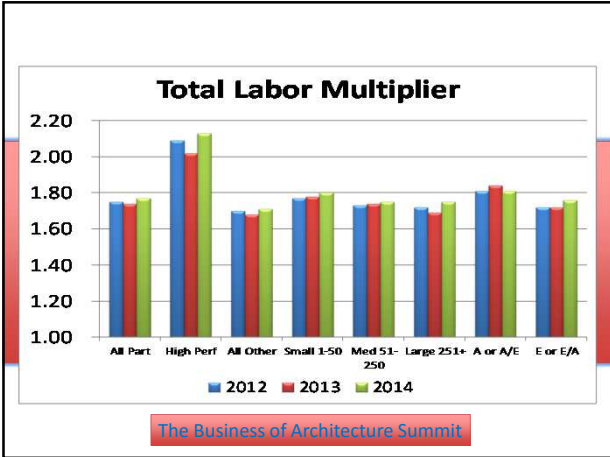


KPIs Correlated to Operating Profit

From PSMJ:

- Utilization Rate 11%
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- Total Labor Multiplier 47%

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Total Labor Multiplier

Total Labor Multiplier = Net Revenue / Total Labor

Net Labor Multiplier = Net Revenue / Direct Labor

Utilization Rate = Direct Labor / Total Labor

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Net Labor Multiplier

= Net Revenue / Direct Labor

More Fee? Less Labor?

Trained, Experienced PICs & PMs Are Key!

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More Fee? ... Not Possible

But It Must Be a Fair Fee

- Quality-based selection
- A sound agreement detailing scope & fee
- Know your costs, *but* value pricing
- *PM & key consultants* involved in *all* scope & fee discussions

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Less Labor? ... Better Project Management

- Backed & supported by the firm: its culture, systems & technology
- Quality-based selection of consultants
- Communication & collaboration
- QA / QC

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Culture, Planning & Investment

Quality Culture as Strong as Design Culture

- Focus on culture rather than strategy
As Peter Drucker famously said,
"Culture eats strategy for breakfast."
- Hire for talent first, skill & experience second

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Culture, Planning & Investment

- Expertise in clients' & consultants' businesses & trends
- Early adapters of new technology related to:
 - Collaboration,
 - Project performance, &
 - Sustainability

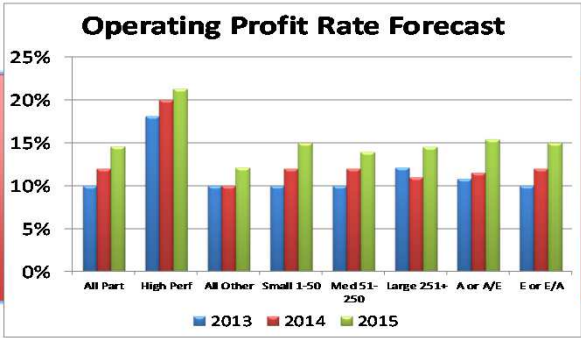
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Financial Focus

- A business mindset and discipline to grow & make a healthy profit year-after-year
- Attention to financial performance as much a focus as is design, marketing & managing the practice

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Operating Profit Rate Forecast



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Well Managed Projects

Well-developed, Documented Planning Systems Consistently Employed Firm-Wide

- Systematic project planning processes & procedures
- Detailed plans based on templates, task lists & checklists from previous projects

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Well Managed Projects

Full Coordination with Consultants

- Collaboration technologies
- Deliverable product: Level & amount of detail
- Engineering studies, analyses & modelling

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Well Managed Projects

Proper Ordering of Tasks & Subtasks

- What gets done when
- By architect & *by each consultant*

Milestones for Phases; Deadlines for Tasks

- For architect & *for each consultant*

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Quality Assurance / Quality Control

QA / QC: Single most important activity that can improve certainty of success

QA Controls Quality of Work / Product

- “*Correct features*” & “*doing the right things*”
- Work meets project goals, client requirements & basic levels of constructability

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Quality Assurance / Quality Control

- QC Ensures Quality of Production Process
- “Minimal deficiencies” & “doing things right”
 - Checklists invaluable for catching errors & omissions, and avoiding rework
- QC Scheduled, *Mandatory & Non-cancelable* at Specific Points & for Specific Components
- For architect & *for each consultant*

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Financial Management System

Project Performance Reports

$$\text{Billings} - \text{Direct Expenses} = \text{Net Revenue} / \text{Direct Labor} = \text{Net Labor Multiplier}$$

Every Project Has One

- Reports:
- Project-by-Project, Phase-by-Phase
 - Monthly, Year-to-Date, Project-to-Date

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Financial Management System

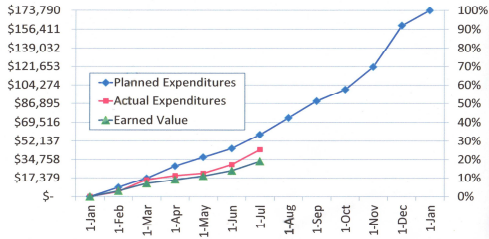
Same Five Categories as on the Firm’s P&L

| | Month | YTD | PYTD |
|--------------------|-------|-----|------|
| Revenue | \$ | | |
| - Direct Expenses | | | |
| = Net Revenue | | | |
| - Direct Labor | | | |
| - Overhead | | | |
| = Operating Profit | \$ | | |

- Nothing but the sum of all projects
- By PM, PIC, service line, department, office

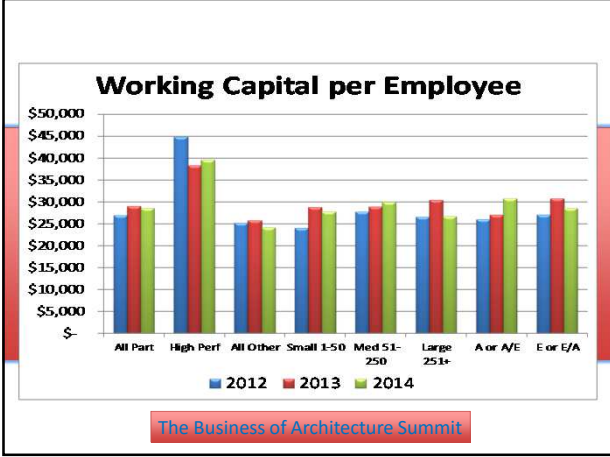
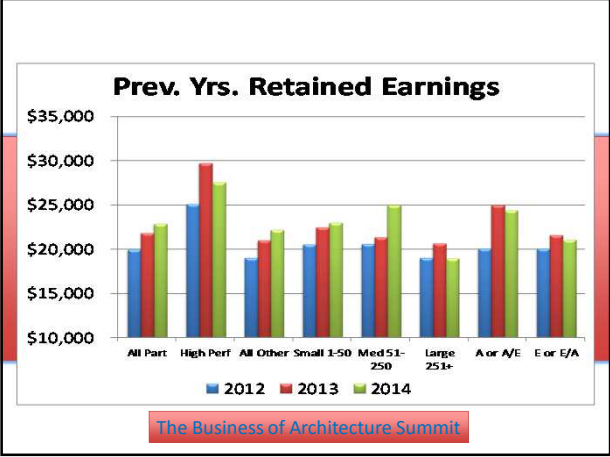
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Give PMs the Tools They Need to Do Earned Value Management



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**Strategic Reinvestment of Profits:
Technology, Equipment & Training**

Emphasis on Technological Advancement

- Improving efficiency & quality
- Creating new services
- Plan & commitment to integrate technology across the firm

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**Strategic Reinvestment of Profits:
Continuous Staff Development**

- Continuous training for all staff
- Enhancing development & advancement opportunities
- Multi-dimensional, two-way employee communications

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| Project Type | A | B | C | D | E | F | G | Total Net Revenue | % of Total Net Revenue |
|--------------------------------------|-------------------|---------------------|---------------------|---------------------|---------------------|---------------------|-------------------|----------------------|------------------------|
| I | \$158,607 1.87 | | | | \$922,577 2.73 | \$322,856 3.67 | | \$1,404,040 2.75 | 13% |
| II | \$231,007 2.53 | \$263,709 1.97 | | \$208,227 2.13 | | | | \$702,943 2.18 | 7% |
| III | | | \$2,336,783 3.69 | | | \$1,015,150 4.85 | | \$3,351,933 3.98 | 32% |
| IV | | \$1,026,998 2.08 | | \$1,223,477 3.51 | \$212,680 2.77 | \$140,531 3.94 | | \$2,603,686 2.73 | 25% |
| V | \$592,893 2.86 | \$557,188 2.54 | \$210,893 2.00 | | | \$254,151 2.70 | \$578,983 2.63 | \$2,194,108 2.59 | 21% |
| VI | | | | | | | \$244,555 3.59 | \$244,555 3.59 | 2% |
| Total Net Revenue Billing Multiplier | \$882,507 2.56 | \$1,847,895 2.18 | \$2,547,676 3.45 | \$1,431,704 3.21 | \$1,135,257 2.74 | \$1,732,688 4.06 | \$823,538 2.86 | \$10,501,265 2.96 | |
| % of Total Net Revenue | 9% | 18% | 24% | 14% | 11% | 16% | 8% | 100% | |

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| % of Total Net Revenue | 9% | 18% | 24% | 14% | 11% | 16% | 8% | 100% | |

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| Project Type | A | B | C | D | E | F | G | Total Oper Profit | % of Total Operating Profit |
|------------------------|----------------------|-----------------------|----------------------|----------------------|------------------|-------------------|------------------|-----------------------|-----------------------------|
| I | (\$61,916) (0.75) | | | | \$43,932 0.13 | \$94,130 1.07 | | \$76,146 0.15 | 6% |
| II | (\$6,391) (0.07) | (\$84,333) (0.63) | | (\$45,947) (0.47) | | | | (\$136,672) (1.42) | (11%) |
| III | | | \$690,268 1.09 | | | \$470,946 2.25 | | \$1,161,215 1.38 | 91% |
| IV | | (\$256,750) (0.52) | | \$317,198 0.91 | \$13,053 0.17 | \$47,795 1.34 | | \$121,296 0.13 | 9% |
| V | \$53,899 0.26 | (\$13,162) (0.06) | (\$63,268) (0.60) | | | \$8,413 0.10 | \$6,604 0.03 | (\$6,513) (0.01) | (1%) |
| VI | | | | | | | \$67,440 0.99 | \$67,440 0.99 | 5% |
| Total Operating Profit | (\$14,409) (0.04) | (\$354,296) (0.42) | \$627,002 0.85 | \$271,251 0.61 | \$56,985 0.14 | \$622,286 1.46 | \$74,045 0.26 | \$1,282,917 0.36 | |
| % of Total Oper Profit | (1%) | (28%) | 49% | 21% | 4% | 49% | 6% | 100% | |

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Contact Information

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This concludes The American Institute of Architects
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