

Benchmarking *Lite 2011*

The importance of comparing strengths and weaknesses
a free service for companies with up to 50 employees

Tables of Results and Guide to the Ratios

The tables which follow show which aspects of performance are good and which are less satisfactory. The comparison's structure will enable you to trace the factors responsible.

Table 1	Revenue, Costs and Profit
2	Staff Costs
3	Staff Structure
4	Payroll Costs per Head
5	Overheads
6	Productivity and analysis of fee Earners' time
7	Staff Turnover
8	Revenue Growth and Debtors

HOW TO USE TABLE 1

Why is Profit (un) satisfactory?

- Obtaining adequate work and thus revenue and then completing it at the right cost will enable you to operate profitably. Ratio 1 shows profit margin, reflecting your cost structure, whilst ratio 3 shows revenue per fee earner, reflecting the adequacy of revenue.
- Profit is measured before tax, exceptionals and goodwill. If profit is not satisfactory, examine first the revenue factors, then the cost factors.
- Revenue is net of sub-contracted and outsourced work as well as any disbursements paid on behalf of the client.

Are you obtaining Adequate Revenue?

- Ratio 3 revenue per fee earner and revenue per staff member (ratio 23d on Table 6) are good indicators of whether the firm as a whole is obtaining adequate revenue in relation to the numbers employed. When looking at these ratios you should look also at staff structure. How many fee earners and how many staff, in total, are employed for every partner or director? (see ratio 19, table 3).
 - In order to maximise revenue per partner/director, firms should employ as many *productive* staff as can be properly managed. In practice, the optimum is likely to be in the region of 8-12 staff per equity partner. Another valuable indicator is ratio 23e on Table 6, revenue per £1 of staff costs, showing how much revenue is obtained by the firm for every £1 it spends on staff (including partners' notional salaries). Over £1.50 is desirable.
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Summary Ratios		Your Firm		Upper Quartile	Average	Lower Quartile
Overall Profitability						
1 Profit as a % of Net Revenue	%	4.5	●	11.1	7.7	4.8
2 Profit per Fee Earner	£	2,970	●	6,620	5,610	3,680
3 Net Revenue per Fee Earner	£	65,650	●	81,300	74,100	68,600
4 Increase/Decrease in Revenue from the Previous Year	%	(9.8)	●	5.4	(1.5)	(11.6)
Principal Costs as % of Net Revenue						
5 Gross Revenue	%	106.2		122.6	129.9	111.9
6 less Sub Contract/Domestic & Overseas Outsourcing Costs/Disbursements	%	6.2		11.1	28.3	22.1
7 Net Revenue	%	100.0		100.0	100.0	100.0
8 Project Direct Costs including travel	%	0.4	●	3.4	2.5	0.2
9 Fee Earners Staff Costs (including temporary staff costs)	%	68.7	●	64.5	62.0	59.2
10 Support Staff Costs (including temporary staff costs)	%	8.0	●	8.1	7.4	6.7
11 Gross Margin	%	20.3	●	27.4	25.6	24.3
12 Overheads & Office Expenses	%	15.8	●	20.8	17.9	16.2
1 Profit Margin (before Tax, Exceptionals & Goodwill Write-Off)	%	4.5	●	11.1	7.7	4.8
1b Profit Margin - Prior Year	%	5.7	●	8.3	6.5	5.6
1c Increase/Decrease in Profit from the Previous Year	%	(28.4)	●	58.7	13.3	(23.4)

HOW TO USE TABLE 2

Are your Staff Costs too high?

Is the level of staff costs satisfactory?

Which groups of staff costs are high?

Is this due to excessive numbers or high cost per head?

Is the staff gearing (staff:partner ratio) correct?

What targets have you set for staff costs and numbers in the short and medium term?

Have you adequate support staff if fee earners are to meet targets?

Are they adequately trained and supported by equipment?

- With staff costs typically accounting for over two-thirds of revenue, getting the right balance between payroll costs and revenue is fundamental to maximising profitability.
- The ratio of staff costs to revenue depends on how many staff you have, the mix of seniority and qualifications and the revenue they achieve.

- In this respect, staff costs include salaries, employer's contribution to National Insurance, private pension schemes, overtime, bonuses and individual professional subscriptions. Vehicle costs principally provided for business purposes are included under project direct costs and travel but cars provided purely as a "perk" are included in staff costs.
 - In the case of partnerships, a notional salary is included for equity partners to represent the cost of employing someone of that experience and seniority but excludes any profit element due to their ownership of the business.
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Fee Earners & Support Staff Costs		Your Firm		Upper Quartile	Average	Lower Quartile	
Fee Earners Staff Costs as a % of Net Revenue							
13 a)	Partners, Directors & Department Heads	%	19.6	●	13.7	8.6	3.0
b)	Senior Professional Staff	%	10.2	●	27.7	22.5	12.7
c)	Engineers	%	29.5	●	17.2	15.1	12.7
d)	Senior Technicians	%	2.8	●	3.7	4.5	0.9
e)	Junior & Graduate Engineers	%	3.7	●	4.8	4.6	3.1
f)	Technicians & Trainees	%	2.9	●	3.2	3.1	1.0
g)	Other Fee Earners	%	-		1.2	1.7	-
h)	Temporary Fee Earners	%	-		3.6	1.8	-
	Total Fee Earners Staff Costs (Ratio 9, Table 1)	%	<u>68.7</u>	●	64.5	<u>61.9</u>	59.2
Support Staff Costs as a % of Net Revenue							
14 a)	Permanent & Contract Support Staff	%	8.0	●	8.0	7.2	6.7
b)	Temporary Support Staff	%	-		0.1	0.2	-
	Total Support Staff Costs (Ratio 10, Table 1)	%	<u>8.0</u>	●	8.1	<u>7.4</u>	6.7
15 a)	Bonuses (contractual or discretionary) as a % of Total Staff Costs	%	0.2	●	2.7	1.7	0.1
16 a)	Contract Fee Earners as a % of Total Fee Earners	%	7.6		8.8	6.3	1.2
b)	Contract Support Staff as a % of Total Support Staff	%	1.0		4.9	3.2	0.5

HOW TO USE TABLE 3

- Table 3 shows the mix of technical staff by qualifications and experience. Firms that have a “richer” mix of more senior staff and fewer juniors and technicians should expect to generate above average revenue per Fee Earner (ratio 3 – table 1) to offset the higher payroll costs per head. The definition used for the different categories of Fee Earner are as follows:
 - Senior Professional Staff - Section Manager, Senior Consultant, Team Leader and Senior Engineers. Qualified with a minimum of 5 years relevant experience. Would be responsible for day-to-day management of a section, team or smaller group of less experienced staff. Plans, organises and manages projects or parts of large projects.
 - Engineers - These would have an accredited degree and at least 2 years relevant experience but not yet chartered. Typically works in a single area with little supervision and prepares design calculations, drawings, specifications and reports.
 - Senior Technicians - Senior Technicians accredited as EngTech or equivalent with minimum 10 years relevant experience. They may manage a team of technicians.
 - Junior and Graduate Engineers - Accredited engineering degree but generally little experience. Usually under formal training scheme to achieve professional qualification.
 - Technicians & Trainees - Technicians will have basic technical qualification, for example an NVQ level 3 or a BTEC NC/ND Engineering/Building Services/CAD or equivalent and normally be working towards higher qualifications. Trainee engineers will typically be a school leaver with A levels.
 - Support Staff include Finance & Accounts, Marketing, IT Staff, HR, Quality and H&S, Property Management and General Administration.
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Staff Structure		Your Firm		Upper Quartile	Average	Lower Quartile	
Staff Structure							
17	a) Partners, Directors & Department Heads	%	14.0	9.4	3.8	1.5	
	b) Senior Professional Staff	%	10.3	29.5	30.8	14.8	
	c) Engineers	%	42.1	24.4	20.6	19.1	
	d) Senior Technicians	%	4.5	6.5	8.3	1.7	
	e) Junior & Graduate Engineers	%	8.4	12.1	9.2	8.4	
	f) Technicians & Trainees	%	7.8	8.8	9.3	3.3	
	g) Other Fee Earners	%	-	3.5	3.7	-	
	h) Total Fee Earners	%	<u>87.2</u>	87.0	<u>85.7</u>	84.0	
	i) Total Support Staff	%	<u>12.8</u>	16.0	<u>14.3</u>	13.0	
	j) Total Staff	%	<u>100.0</u>	100.0	<u>100.0</u>	100.0	
Staff per Partner/ Director/Department Head							
18	a) Senior Professional Staff	no.	0.7	●	9.8	8.1	2.7
	b) Engineers	no.	3.0	●	13.0	5.4	2.9
	c) Senior Technicians	no.	0.3	●	2.1	2.2	0.4
	d) Junior & Graduate Engineers	no.	0.6	●	3.6	2.4	0.8
	e) Technicians & Trainees	no.	0.6	●	2.6	2.5	0.6
	f) Other Fee Earners	no.	-	●	0.4	1.0	-
	g) Total Fee Earners	no.	<u>5.2</u>	●	48.1	21.5	6.9
	h) Total Support Staff	no.	<u>0.9</u>	●	3.6	3.8	1.8
	i) Total staff per Partner/ Director/Dept. Head	no.	<u>6.1</u>	●	54.4	25.2	9.3
	j) Number of Support Staff per Fee Earner	no.	<u>0.15</u>	●	0.20	0.17	0.20

HOW TO USE TABLE 4

Are your Payroll Costs per Head higher than others?

- The costs per head on Table 4 are calculated by dividing the total payroll costs for each category of employee (as defined on Table 2) by the average number of staff employed during the year.
 - Staff numbers are the full-time equivalents (FTE's) throughout the year. This will take into account any part-time members of staff or those working only part of the year, eg, if a person works consistently 3 days a week he or she is counted as 0.6; if someone new joins 3 months before the end of the financial year, that person is counted as 0.25.
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Staff Costs per Head		Your Firm		Upper Quartile	Median	Lower Quartile
Staff Cost per Head (including bonus, employer NI & pension contribution)						
19 a)	Salaried Partners/Other Directors & Department Heads	£ 77,100	●	108,900	98,500	77,100
b)	Senior Professional Staff	£ 56,300	●	66,000	59,100	55,600
c)	Engineers	£ 40,000	●	46,900	40,000	37,500
d)	Senior Technicians	£ 35,800	●	37,100	36,000	34,300
e)	Junior & Graduate Engineers	£ 25,500	●	28,800	26,800	25,700
f)	Technicians & Trainees	£ 21,200	●	24,400	22,900	20,700
g)	Other Fee Earners	£ -	●	37,800	31,100	26,800
h)	Average Cost - All Fee Earners	£ 45,100	●	49,800	45,500	42,500
i)	Average Cost - excl. Partners, Directors, Dept. Heads	£ 38,400	●	45,600	41,300	38,200
q)	Average Cost per Support Staff Employee	£ 35,800	●	35,900	34,100	29,800
r)	Average Cost per Member of Staff	£ 43,900	●	46,500	44,100	40,900
s)	Average bonus per employee (excluding partners)	£ 100		1,200	300	0

HOW TO USE TABLE 5

Are your Overheads too High?

Ratios 21 and 22 on table 5 will show you the reasons why accommodation and operating costs may be high. In particular, ratio 21a shows whether you pay more per square foot than others while ratio 21b shows whether you may have too much office space.

Some questions to think about:

- Are your costs acceptable? If not, can you take any practical action to reduce them?
- Would owning premises make economic sense?
- Is floor area adequate or excessive? Could you sub-let excess space?
- Conversely, would bigger/better premises improve efficiency or client perception?

To check your operating cost levels, see ratio 22 where costs are analysed in detail as a percentage of revenue.

- Are your operating costs under control?
 - If they are high, is it due to low revenue/high fixed costs?
 - Which items are unsatisfactory?
 - Depending on the particular items concerned, what action can be taken to reduce costs by way of expenditure control, training or investment?
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Operating Expenses as % of Net Revenue		Your Firm		Upper Quartile	Average	Lower Quartile	
Accommodation Costs							
20 a)	Accommodation Costs per sq ft	£	29.8	●	35.0	31.0	28.6
b)	Area per Member of Staff	sq ft	115	●	135	118	97
Overhead & Office Expenses as % of Net Revenue							
21 a)	Rent, Rates & Service charges	%	6.0	●	6.6	5.8	5.3
b)	IT, Communications & Equipment (including depreciation)	%	2.9	●	5.4	4.0	2.9
c)	Internal Photocopying, Stationery, Printing etc	%	0.3	●	0.7	0.5	0.3
d)	Marketing, PR, Brochures	%	0.5	●	0.6	0.7	0.3
e)	Certification Body Orders	%	0.6	●	0.4	0.2	0.2
f)	Professional Indemnity Insurance	%	1.2	●	1.8	1.5	1.1
g)	Legal, Professional, Consultancy	%	0.3	●	1.1	0.9	0.4
h)	Recruitment Costs	%	0.3	●	0.5	0.4	0.3
i)	Training Costs	%	0.3	●	0.6	0.5	0.4
j)	Non-project Travel & Subsistence	%	2.3	●	2.3	1.3	0.2
k)	Finance, Accounts & Audit (non Staff Costs)	%	0.4	●	0.4	0.1	0.0
l)	Bad Debts Written Off and Provisions	%	(0.0)	●	0.5	0.3	0.0
m)	Other Office Expenses & Group Recharges	%	0.2	●	1.6	1.0	0.7
n)	Interest paid	%	0.0	●	0.3	0.1	0.0
o)	Depreciation (excluding IT)	%	0.6	●	0.5	0.5	0.1
p)	Total Overheads & Office Expenses	%	15.8	●	20.8	17.7	16.2
q)	Exceptional one-off items not included above	%	-				
r)	Write-off of Goodwill not included above	%	-		0.0	0.3	0.0
s)	Professional Indemnity Insurance Costs per Fee Earner	£	790		1,410	1,250	680
t)	Training Costs per Employee	£	180	●	360	390	250

HOW TO USE TABLE 6

How good is your productivity?

If revenue per head is not adequate can revenue be developed or do you need to reduce staffing levels?

Are departmental gross profit margins acceptable?

Which, if any, of revenue per partner/fee earner/ staff member are unsatisfactory?

What targets should be set for each of the above?

What revenue targets should be set for each department in both the short and medium term?

Are fee earners working sufficient chargeable hours?

What proportion of hours recorded are written off?

Are charge-out rates as high as the market will bear?

- Ratios 23(a) - (g) provide several measures of productivity. Net Revenue per fee earner and Net Revenue per employee have been discussed on How to use Table 1.
- Revenue per Billed Project House compares the level of revenue net of sub-contract etc. with the total number of fee earners' hours spent on billable project work whether hourly paid or fixed fee.

Analysis of Fee Earners Hours

The analysis of fee earners' time is measured against the total paid hours available for work i.e. it excludes holidays and Bank Holidays but not absenteeism. Paid overtime is included.

Project time is time spent actually working on the project. Some firms treat the time spent on preparing successful bids as part of project hours. However for the Benchmarking project such time is treated as Bidding & Marketing not Project Hours.

Staff Productivity & Charging		Your Firm		Upper Quartile	Average	Lower Quartile	
Staff Productivity							
22 a)	Net Revenue per Fee Earner per year	£	65,700	●	81,300	74,100	68,600
	b) Net Revenue per Fee Earner per Billed Project Hour	£	47.8	●	63.7	55.1	48.5
	c) Net Revenue per Fee Earner (excl. Equity Partners/Directors)	£	65,800	●	82,300	75,000	72,400
	d) Net Revenue per Staff Member (inc. partners/directors)	£	57,200	●	69,100	63,500	57,400
	e) Net Revenue per £ of Staff Costs (inc. partners & temporary staff)	£	1.30	●	1.51	1.45	1.40
	f) Projects worked on per Fee Earner per year	no	2.5		3.0	2.6	1.7
	g) Revenue earned during year per project	£	26,660	●	45,270	27,420	25,230
Average Increase in Hourly Charge-out Rates from Previous Year							
23	Overall Average Increase	%	0.1	●	5.0	2.0	0.0
Analysis of Fee Earners' Hours as a % of Paid Hours							
24 a)	Billed Project Hours	%	79.7		84.7	79.0	75.3
	b) Unbilled Project Hours	%	0.0		-	0.5	-
	c) Bidding & Marketing	%	1.7		6.9	3.7	3.1
	d) Administration	%	10.3		14.1	11.3	7.6
	e) Training	%	1.6		2.7	2.0	1.4
	f) Sickness	%	1.8		2.4	2.0	1.8
	g) Total Hours Worked	%	<u>100.0</u>			<u>101.8</u>	
	h) Unpaid Overtime as % of Paid Hours	%	-		2.9	2.4	-

HOW TO USE TABLE 7

Staff Turnover

- For many companies, the loss of revenue during the downturn of recent years has meant adjustments to staffing levels. However in more stable times, firms will typically aim to keep the numbers of staff leaving voluntarily at a minimum to avoid the loss of expertise, disruption, recruitment and training costs often associated with high staff turnover rates.
- Ratio 26 shows the number of staff leaving during the year (whether voluntarily or for other reasons) as a percentage of the staff employed at the start of the financial year.
- Ratios 27 and 28 analyse separately the numbers leaving voluntarily or for other reasons, the numbers of new staff joining and the net increase or decrease over the year.

Winning Work

- Generating new business is of course fundamental to the success of every firm.
 - Ratio 29(a) shows the number of successful competitive bids as a percentage of the total of successful and unsuccessful bids but excluding those of which the result is not yet known. The total number of new projects won (not just through competitive tendering) is shown per fee earner at ratio 29(b) and as a % of the total number of projects worked on during the year at 29(c). The value of new projects is expressed as a multiple of Gross Revenue for the year. For firms working on comparatively short-term projects, the answer will be close to 1.0 but where projects stretch over more than one year or involve framework agreements, the answer may be well above or below 1.0
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Staff Turnover		Your Firm		Upper Quartile	Average	Lower Quartile
Staff Turnover						
Leavers as a % of Staff at beginning of year						
25 a) Fee Earners	%	23.9	●	20.3	17.9	13.9
b) Support Staff	%	19.1	●	22.1	20.2	17.0
c) All Staff	%	23.5	●	21.2	18.1	15.4
Fee Earners - changes compared with beginning of year						
26 a) Left voluntarily	%	6.4		7.9	7.2	5.6
b) Left for other reasons	%	15.4		10.9	8.9	6.1
c) Total Fee Earners leaving	%	23.9		20.3	17.9	13.9
d) Fee Earners joining		2.5		12.8	9.3	6.1
e) % Increase in number of Fee Earners	%	(21.4)		(2.0)	(8.6)	(14.7)
Support Staff - changes compared with beginning of year						
27 a) Left voluntarily	%	6.7		10.8	8.6	6.3
b) Left for other reasons	%	10.1		12.0	9.5	5.8
c) Total Support Staff leaving	%	19.1		22.1	20.2	17.0
d) Total Support Staff joining		7.9		13.5	12.2	8.1
e) % Increase in number of Support Staff	%	(11.2)		(5.1)	(8.1)	(15.2)
f) % Increase in Total Permanent and Contract Staff	%	(24.7)		(3.7)	(9.4)	(14.8)
Marketing Costs and Work Won						
28 a) Success rate for Competitive Tenders	%	22.5	●	43.2	36.7	25.1
b) Projects won this year per Fee Earner	No.	1.2	●	1.6	1.5	1.0
c) New Projects won as % of Total projects for the year	%	47	●	60	48	46
d) Value of new projects won as a multiple of Gross Revenue	%	0.36	●	0.90	0.51	0.40

HOW TO USE TABLE 8

How does your revenue growth compare?

- The increase in revenue for each firm's latest financial year is shown at Ratio 4 at Table 1. Not all firms have the same year-end although the majority are December or March/April. Table 8 shows a quarter-by-quarter analysis based on Gross Revenue.
- Ratio 32 shows the quarterly trend for all firms on an index basis (Q1 2009 = 100) whilst Ratio 30 illustrates the growth in each quarter compared to the same quarter of the previous year.
- Ratio 31 shows the rolling 12 month trend. For example Ratio 31(c) compares the total revenue in the four quarters of Q3 2010 to Q2 2011 with the previous four quarters of Q3 2009 to Q2 2010.

Current Assets

- Even if you are obtaining sufficient work and executing it efficiently you will only make a profit once that work is converted into cash. It is essential that work done is billed regularly and levels of unbilled work are monitored closely.
 - Ratio 33 on table 8 shows how long it is taking you to collect your debts once you have billed them and gives an analysis of the age of debts outstanding.
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Growth in Gross Revenue		Your Firm		Upper Quartile	Average	Lower Quartile
Growth in Gross Revenue compared with same quarter of previous year						
29 a)	January to March 2010	%	(0.4)	●	16.8	3.5 (12.1)
b)	April to June 2010	%	(12.6)	●	0.0	(9.5) (15.7)
c)	July to September 2010	%	(20.3)	●	(5.9)	(12.2) (19.4)
d)	October to December 2010	%	(27.8)	●	(6.2)	(13.3) (18.6)
e)	January to March 2011	%	(27.5)	●	(5.6)	(11.6) (17.2)
f)	April to June 2011	%	(16.8)	●	(1.1)	(4.0) (11.2)
Growth in Rolling 12 months Revenue compared to previous 12 months						
30 a)	12 months to December 2010 vs. 12 months to December 2009	%	(15.3)	●	0.8	(8.2) (15.9)
b)	12 months to March 2011 vs. 12 months to March 2010	%	(21.9)	●	(6.5)	(12.1) (20.1)
c)	12 months to June 2011 vs. 12 months to June 2010	%	(23.2)	●	(4.5)	(11.0) (19.2)
Index of Revenue Growth (Jan-Mar 2009=100)						
31 a)	January to March 2009		100.0	●	100.0	100.0 100.0
b)	April to June 2009		103.1	●	113.3	105.2 98.8
c)	July - September 2009		104.7	●	108.9	106.6 100.0
d)	October to December 2009		99.0	●	113.9	105.2 91.6
e)	January to March 2010		99.6	●	116.8	103.5 87.9
f)	April to June 2010		90.1	●	101.4	94.6 82.6
g)	July - September 2010		83.4	●	104.1	93.4 75.8
h)	October to December 2010		71.4	●	112.4	91.2 77.3
i)	January to March 2011		72.2	●	104.3	91.7 72.2
j)	April to June 2011		74.9	●	97.1	90.8 74.9
Debtors in terms of Average Daily Sales						
32 a)	Less than 30 days		36.6	●	36.5	31.8 23.7
b)	30 - 60 days	days	3.3	●	23.3	18.1 8.5
c)	60 - 90 days	days	1.0	●	10.4	7.4 4.0
d)	Over 90 days	days	3.0	●	21.0	16.6 8.0
e)	Total Debtors	days	43.8	●	83.5	73.9 45.5