

BUSINESS BENCHMARKING FOR RIBA CHARTERED PRACTICES

2010/11 REPORT: EXECUTIVE SUMMARY

SETTING THE SCENE

- This year, for the first time, it has been mandatory for RIBA Chartered Practices with a headcount of six or more to take part in this survey. Our figures are drawn from 808 practices: 26% of all RIBA Chartered Practices (compared to 205 practices, or 7% of the total in last year's survey).
- The mandatory rule means that the percentage of larger practices in this survey is considerably higher than across all RIBA Chartered Practices. So, it is important not to extrapolate the results to represent the profession as a whole.
- To maintain anonymity, reporting is only done where data sets include thirty or more practices.
- Practices in this survey range from sole practitioners to practices with around 1,000 people. All RIBA Nations and Regions are represented. 32% of practices are London based, this is comparable with the percentage of RIBA Chartered Practices in London.
- The information in this survey draws on data to the end of 2010.

PROFITABILITY

- Practices in this survey have a combined income of £1.44bn, from which they made a profit of £286m, an average of around 21%. Last year it was 18%.
- 58% of practices meet the Colander Benchmark of 15% profit as a percentage of turnover.
- Average turnover per fee earner is £72k; increasing by size of practice up to £90.5k for Large practices.
- However, profit as a percentage of turnover falls the larger the practice, suggesting that the larger the practice, the harder it becomes to extract profit.
- On average, London practices achieve a higher profit to turnover than regional practices. However, London also records the highest percentage of loss making practices.

EXPENSES

- The average percentage of expenses spent on salaries has dropped to 68% – below the Colander Benchmark of 70%. This reflects the hard-hitting redundancy programmes that have been implemented in the past year.
- Expenditure on premises has increased to 36% of expenses (excluding salaries).
- Expenditure on IT has dropped to 15% of expenses (excluding salaries).
- Marketing budgets have also fallen, to 6% of expenses (excluding salaries).

BUSINESS MANAGEMENT

- More than 75% of Large practices now have a business plan – although 50% of the practices in this survey do not.
- 80% of practices have set targets for income and expenditure and 97% forecast cash flow; an improvement on last year.
- Generally speaking, the larger the practice, the higher the charge out rates, across all levels of staff.
- Architects and Architectural Assistants average targeted chargeable hours of 85% to 90%. As expected, targeted chargeable hours fall with seniority.
- 77% of practices ask all personnel – including Partners and Directors to complete timesheets.
- 92% of practices have an Office Manual; 86% have a documented Quality Management System.
- Although, on average, actual income falls somewhat short of maximum, targeted income figures, actual income exceeds the minimum target, albeit modestly, regardless of practice size or location. (Targeted income = number of fee earners x charge out rates x targeted chargeable hours.)
- 71% of practices are Ltd companies, 15% are LLPs and 11% are traditional Partnerships. Reflecting the high percentage of larger practices in this survey, only 3% are sole practitioners.

PEOPLE

- A quarter of practices do not have job descriptions for all their fee earners, however, 84% say they undertake annual, formal staff appraisals.
- 90% of practices have a formal CPD strategy. Encouragingly, 85% offer a graduate support programme.
- Between them, practices in this survey employ more than 20,000 people. 18% are equity holders, 69% are other fee earners and 13% are non-fee earners – well below the Colander Benchmark of non-fee earning staff being between 20% and 33% of the work force.
- Most practices are operating in remarkably flat hierarchies; we would expect practices working on traditional building projects to have a higher percentage of junior staff. This may reflect redundancy strategies that have cut hardest at junior level, or it may be that practices are working on more front-end concept work, so there is less demand for large teams.
- A third of the workforce is female: 88% of non-fee earners but only a quarter of fee-earners.
- The percentage of women falls by seniority: 38% of Architectural Assistants are women but only 9% of Equity Partners or Shareholder Directors.
- While salaries have stabilised across the profession, the value of add-ons has fallen, so, in real terms most are taking home less than in the previous year.
- Partners and Directors in the smaller practices average less than half the salaries and add-ons of their counterparts in the larger practices.
- At all levels of seniority, those working in London earn more.
- Excluding add-ons, non-fee earners in Small practices earn 30% less than those in Large practices.

CLIENT RELATIONS

- As last year, 60% of the practices offer non-architectural services.
- Only 37% of practices meet or exceed the Colander Benchmark of spending 1.5% to 2.5% of turnover on marketing. Unsurprisingly therefore, there is no correlation between marketing expenditure and profit, or between marketing expenditure and success at winning projects.
- Practices in this survey worked with over 36,000 clients in the last year, averaging 45 clients per practice. Fewer clients, with larger projects, would make life easier for many practices.
- 5% of income comes from projects outside the UK. However, this leaps to 14% for Large practices and 10% for London practices; in all other RIBA Nations and Regions it is below 4%.
- Two-thirds of practices meet the Colander Benchmark of winning 50% of the work that they chase. However, there remains no correlation between success at winning work and profitability.
- 55% of all new projects come from existing clients.
- Remembering that this survey has a high percentage of larger practices, private corporate clients account for around 40% of clients, the domestic market for 30% and the public sector for 20%.
- More than 65% of practices fail to meet the Colander Benchmark that no more than 40% of turnover should come from any one client sector.
- Only two sectors of work account for more than 10% of the fees generated by practices across the survey: 33% of all fees come from the residential market and 15% from education.

CONCLUSIONS

- The market in which architects are working, remains tough and unpredictable, swayed by the vagaries of both politics and economics.
- Many practices have already made significant changes to their businesses to deal with the poor economic climate. However, it is disheartening to realise that the youngest members of the profession are probably bearing the brunt of those adjustments.
- For long-term survival, practices must consider how they can make the most of a changing construction industry that is increasingly holistic and increasingly global.
- In next year's survey it would be useful to take a closer look at the services practices are offering as well as having a more detailed analysis of the clients for whom practices are working.