

A Glossary of Key Financial Performance Indicators

June 1, 2018

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Strogoff Consulting, Inc.



Key Financial Performance Indicators

The following Key Financial Performance Indicators (KPFIs) help design professionals monitor and improve profitability and financial health.

Current Ratio	Current Assets divided by Current Liabilities, which is an indicator of a firm's financial health. Current is generally defined as those amounts receivable or payable within the next year.
Days Sales Outstanding (a.k.a. Days Receivables)	The number of days of average fee revenue that is outstanding in Accounts Receivable at period end. This is calculated as Accounts Receivable (net of any allowances) divided by Days Sales (Gross Revenue divided by the number of days in the period).
Direct Expenses	All project-related expenses other than Direct Labor. May include a portion of office expenses such as reproduction costs that are directly related to projects. Direct Expenses include project-related expenses that are reimbursable and non-reimbursable.
Direct Labor	The portion of total labor expense related to projects. Employee and owner hours are tracked and allocated to Direct (project) Labor vs. Indirect Labor (administration and business development). Related payroll expenses such as payroll taxes are generally included as indirect labor (see below).
EBITDA	Earnings Before Interest, Taxes (non-payroll), Depreciation & Amortization. EBIDTA is a measurement which is reflective of a firm's true operational earnings as it excludes depreciation/amortization and taxes which are particular to the structure of a firm. EBIDTA should be adjusted as necessary to account for excess or below-market compensation, discretionary expenses, some non-recurring expenses, and other expenses that do not reflect the intrinsic value of the firm.
Gross Income	Gross Revenue minus total Direct Expenses (including consultants' fees and expenses, all reimbursable and non-reimbursable project expenses, and Direct Labor).
Gross Margin	Gross Income divided by Net Fees/Net Operating Revenue.
Gross Revenue (a.k.a. Gross Fees)	Total revenue earned, including fees earned based on the work of subcontractors. (Excludes <i>Other Income</i> , which is not related to ordinary operations of the firm, e.g. dividend income, gains on sale of assets.)
Indirect Expenses	All operating expenses that are not directly related to projects, including Indirect Labor, employee benefits, bonuses, etc. Excludes <i>Other Expenses</i> which are not ordinary operating expenses, such as losses on disposal of fixed assets.
Months of Working Capital	The number of months that Working Capital would cover an average month of operating expenses (direct salary and indirect expenses). This is calculated as Working Capital divided by the sum of annual Direct Salary and Indirect Expenses, and then divided by twelve months.
Net Effective Multiplier	Net Fees divided by Direct Labor, which measures how many dollars are earned for each dollar of Direct Labor expended. This metric is a valuable indicator of efficiency and fees negotiated.



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Net Income from Operations	Equivalent to “profit,” Net Income from Operations. Other Income and Expenses not directly related to the operations of the business are generally not included.
Net Income as a Percentage of Net Fees	Net Income from Operations divided by Net Fees, which is an indicator of the firm’s annual profitability.
Net Fee Backlog (a.k.a. Current Backlog)	Remaining fees for work under contract, excluding fees allocated to project consultants.
Net Income	Net Income is the Gross Revenue less all Direct and Indirect Expenses. Excludes Other Income and Expenses which are not part of ordinary operations, such as interest income/expense or losses/gains on disposal of fixed assets. Net Income should be adjusted as necessary to account for excess or below-market compensation, discretionary expenses, some non-recurring expenses, and other expenses that do not reflect the intrinsic value of the firm.
Net Operating Revenue (a.k.a. Net Fees)	Total Revenue earned minus Direct Expenses, and all reimbursable and non-reimbursable project expenses (including consultants’ fees). (Does not subtract Direct Labor; which is the difference between this metric and Gross Income.)
Net Revenue Per Technical Employee	Annual Net Fees divided by the number of technical employees in a firm, which is a measure of the productivity of the firm and can be used for year-over-year comparisons or comparisons with other firms.
Net Worth	Total assets minus total liabilities with any necessary adjustments to reflect accrued assets and liabilities not otherwise reflected in the financial statements, such as cash to accrual conversions, unrecorded work-in-process, pre-paid expenses, unrecorded liabilities, and current value of fixed assets above the depreciated value.
Other Income / Expense	Revenue and expenses that are not related to ordinary operations such as: interest income/expense, gains/losses on disposal of assets, income taxes, etc.
Overhead Costs	Includes all Indirect Expenses (i.e. indirect wages and expenses that are not directly related to specific projects).
Overhead Factor	Overhead Costs divided by Direct Labor, which is a measure of how much a firm spends in overhead for every dollar of direct labor expended.
Utilization Rate	The ratio of the hours worked on projects (direct labor) to total hours worked by all members of the firm (total labor). Individual utilization rates also can be calculated for every member of the firm. The utilization rate is a measure of overall efficiency.
Working Capital	Current Assets minus Current Liabilities
Work-In-Process (WIP)	Fees earned and not yet billed. A WIP adjustment typically results in a Balance Sheet accrual under Current Assets and an Income Statement accrual under Income.



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For more information on Key Financial Performance Indicators or to discuss developing a financial dashboard that tracks and reflects your firm's financial performance:

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