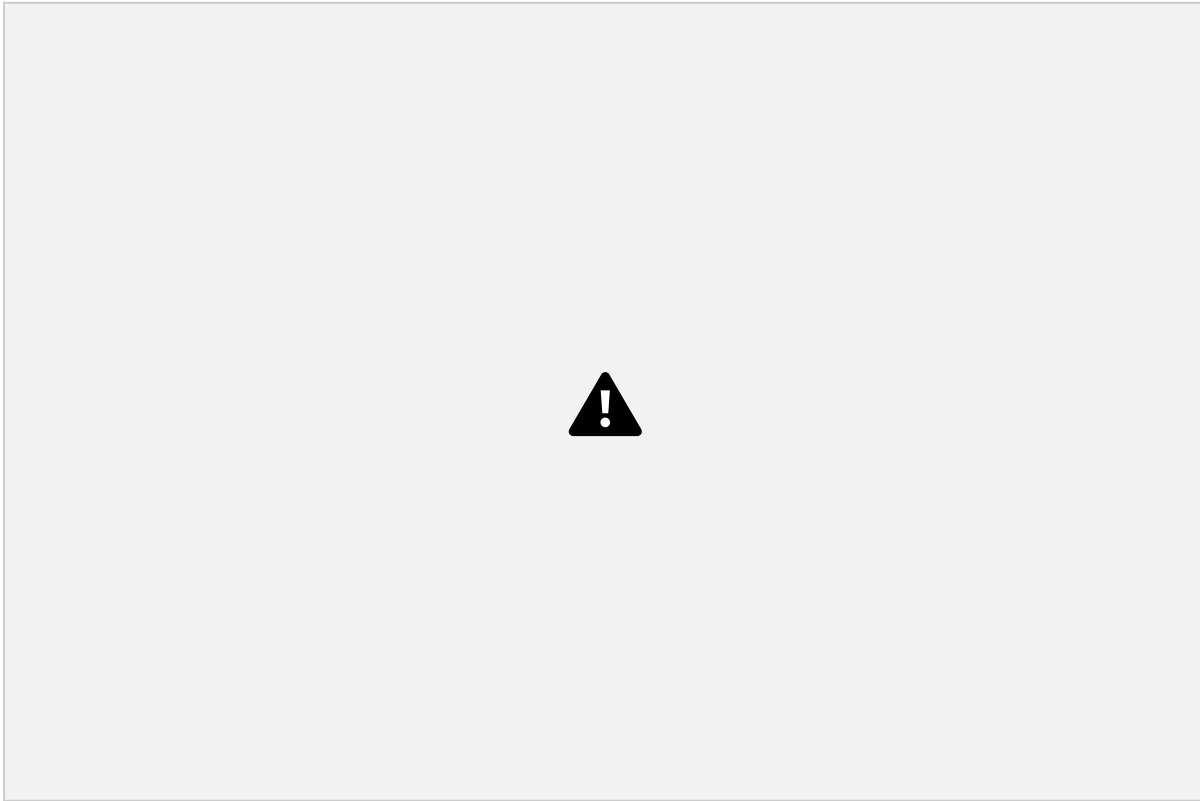


# The Number One KPI Needed by AEC Firms

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7 min read



The 43rd Annual Deltek Clarity Architecture and Engineering Study examines industry trends and found that increased employee attrition rates (up 2% year over year) along with elevated labor costs (due to competitive balance) have eaten away at profits, especially in small and medium-sized AEC firms <sup>[1]</sup>.

## Key Takeaways

- **What's the #1 KPI for Architecture, Engineering & Construction Firms? Net Multiplier:** The net multiplier ratio measures your firm's return on your investment in direct labor (and you should be thinking of your direct labor cost as an investment)...
- **The Target Net Multiplier for AEC Firms:** We recommend aiming for a net multiplier of three or above. However, healthy net multipliers for firms in the AEC industry tend to fall between a range of about 2.75 to 3.25...
- **Track KPI Metrics and Fuel Business Growth With Outsourced Accounting:** It's not uncommon to be too overwhelmed with managing the operations of your AEC firm to find time to worry about figuring out how to track, understand, and use KPIs to your business's advantage...

Despite increasing annually since 2012, operating profit on net revenue declined across the industry by more than six percentage points from a peak of 19% in 2020 to 12.8% in 2021. Additionally, after a 14% increase between 2020 and 2021, the industry's overhead rate returned to 2018's 10-year-high of 160%.

One of the biggest challenges faced by firms in the AEC industry since 2021 has been translating the industry-wide increased labor costs into revenue. Despite this challenge, firms of all sizes have been able to maintain relatively stable returns on their labor costs with an average net multiplier of 2.99 in 2021, which is just .04 points lower than the decade's peak of 3.03 in 2019. In the face of increasing labor costs and the decline of operating profit on net revenue, this relatively stable net multiplier is a testament to the ingenuity and ability of the people working in the AEC industry.

That being said, the economic climate is unstable and hiring and retention still present incredible challenges. As a result, AEC firms need to keep a close watch on the most vital KPIs to ensure ongoing financial health.

## What Are KPIs?

KPIs (key performance indicators) are an essential measurement of performance. They are used in businesses to evaluate success and financial health. [KPIs](#) use a company's data (financial, operational, and strategic) to quantifiably measure performance over time.

# Key Performance Indicator Examples

Some of the most commonly tracked KPIs in AEC firms include the following:

- Backlog
- Break-Even Rate
- Days Sales Outstanding
- Employee Turnover Rate
- Net Multiplier (and Target vs. Achieved Multiplier)
- Net Revenue per Employee
- Operating Profit (EBITDA)
- Overhead Rate
- Profit to Earnings Ratio
- Proposal Bid-to-Win Ratio
- Revenue and Revenue Growth
- Utilization Rate

## What's the #1 KPI for Architecture, Engineering & Construction Firms? Net Multiplier.

The most important KPI for Architecture, [Engineering](#), and Construction firms is the net multiplier. Your AEC firm's net multiplier is the ratio of your net operating revenue compared to total direct labor. (You can locate these figures on your firm's profit and loss statement aka income statement.) The net multiplier ratio measures your firm's return on your investment in direct labor (and you should be thinking of your direct labor cost as an investment).

***Net Multiplier = Net Operating Revenue/Direct Labor***

The net multiplier is vital for AEC firms because your biggest cost in a service-based business is always going to be labor, and the net multiplier measures how well your people are performing. Instead of showing you your labor costs, the net multiplier reveals the results of your labor costs. It shows you how much money you generate on every dollar you spend on direct labor. In other words, it's an excellent way to keep track of the health of your biggest investment, the money you spend on the people working in your firm.

**Read More:** [Financial vs. Management Reports: What AEC Firms Need to Know](#)

You can also look at the net multiplier alongside additional KPIs to reveal a whole host of information about your firm's financial health. For example, you can determine if your firm is earning a profit by comparing the net multiplier to your break-even rate.

***Break-Even Rate = Overhead Rate + 1.0 (representing a unit cost of compensation)***

If the net multiplier is greater than the break-even rate, then your firm is earning money. If the net multiplier is less than the break-even rate, your firm is losing money. If you are losing money, then you are not generating enough revenue to cover your costs, and you should adjust your billing rates or billing structure to cover your costs while leaving room for an ample profit margin.

## What Is a Healthy Net Multiplier? The Target Net Multiplier for AEC Firms

We recommend aiming for a net multiplier of three or above. However, healthy net multipliers for firms in the AEC industry tend to fall between a range of about 2.75 to 3.25. This range is typical for firms with fairly standard overhead costs, profit margins, and efficient/effective employees <sup>[2]</sup>.

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### Top KPIs You Should Track- For AEC Firms



**All in ONE guide. The only scorecard designed exclusively for Architecture, Engineering, and Construction leaders to make data-driven decisions.**

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# Key Performance Indicator Best Practices for AEC Firms

## Automate Your Bookkeeping and Accounting System

KPIs are only useful to your business if they are accurate and timely. The best way to ensure your financial data is both is to automate as many manual bookkeeping and accounting processes as you can. With the use of integrated bookkeeping and accounting software and apps, you can streamline your back-office processes to increase the accuracy of your financial data and the efficiency of your reporting.

With labor being your biggest cost and also strongly tied to optimizing your [pricing](#), it's essential that you have a clear understanding of how your employees spend their time. Accurate time tracking isn't necessarily necessary for controlling time spent at the water cooler; it's necessary for determining how much time your employees spend on each type of task, service, job, and client. This helps you better understand your true costs. Accurate time tracking ensures that your time-based KPIs are accurate and able to help you make the right adjustments in your firm to maximize productivity and improve performance.

## Establish SMART Goals

KPIs can provide you with endless information about your business, but they can only help you improve and grow your business if you pair KPI tracking with a strategy and [SMART](#) (specific, measurable, achievable, relevant, and time-bound) goals.

Take the time to define a few essential long-term goals for your firm by thinking about where you want your firm to be in five years. Then create a strategy that outlines a clear pathway to achieving those long-term goals. Next, identify and schedule the benchmarks that your firm needs to meet along the way. Finally, attach those goals and benchmarks to measurable KPIs so that you can keep track of your firm's progress.

**Read More:** [How to Read and Interpret Financial Reports for Your AEC Firm](#)

## Don't Track Every KPI Under the Sun

There are countless KPIs that you could potentially track in your business, but it's important to use your time and resources wisely and only track those that are most relevant to your firm's financial health and specific goals. Flooding your financial reports with superfluous KPIs can bog you down, waste your time, and make it difficult to zero in on the metrics that really matter.

## Track KPI Metrics and Fuel Business Growth With Outsourced Accounting

It's not uncommon to be too overwhelmed with managing the operations of your AEC firm to find time to worry about figuring out how to track, understand, and use KPIs to your business's advantage. Plus, the cost of a complete in-house bookkeeping and accounting department is most often unaffordable to small and medium-sized AEC firms.

Thankfully, with outsourced accounting, you can access the team, tools, and [technology](#) that are perfect for managing business finances and tailored to the unique needs and specifications of your industry. With an experienced back-office team, you can enjoy having streamlined, automated bookkeeping and accounting systems along with experts to help you learn, understand, and use the KPIs that are most important in your business.

[1] <https://info.delttek.com/43rd-Annual-Deltek-Clarity-AE-Industry-Study>

[2]

<https://entresearchitect.com/2015/04/20/7-key-financial-performance-indicators-for-a-successful-architecture-firm/>