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EXCLUSIVE SURVEY

Key Performance Benchmarks Show Challenges But Also Resilience in Firm Operations

The key performance ratios by which CPA firm leaders assess their firm's achievement show some interesting changes in the past year—and not by any means uniformly bad ones, as some were fearing.

While some firms have seen negative impacts in areas such as billing rates and profit margins, others have seen the opposite (see the accompanying table). Although the next fiscal year may demonstrate additional fallout from the post-recession months, the performance ratios calculated from AOMAR's *CPA Firm Practice Management Survey 2010* demonstrate the hardiness of the accounting profession, even in the face of severe economic challenges.

Formulas for our computations are in the accompanying sidebar. Keep in mind that computations are based on the respondents to each year's survey, and that different firms participate in our surveys from year to year.

Leverage. Overall leverage fell just 0.2 percent over the year from last year's survey to this year's, going from 6.8 to 6.6. While most of the breakout groups by number of personnel did see declines here, two groups saw an uptick: firms with 16 to 25 averaged 8.1 versus 6.6, and those with more than 50 people, 10.4 compared to 9.6.

The question related to leverage is: Have the cuts in staff "caught up" with the leverage data? Since the research for the survey was conducted in the summer of 2009, some firms had not yet completed downsizing for the calendar year. Next year's leverage statistics will probably complete the picture here.

Utilization. Along with realization, this is a metric that CPA firm leaders are watching more closely now. The average utilization in the 2010 survey was 1,164; in 2009, respondents reported an average 1,108.

More chargeable hours would seem to be a good development in a financially-challenged

Calculating Performance Ratios

These are the formulas that AOMAR uses to calculate performance ratios:

- **Leverage** = Total personnel ÷ total number of equity owners.
- **Utilization** = Chargeable hours of the firm ÷ total personnel.
- **Billing rate** = Standard fees ÷ firm chargeable hours.
- **Realization** = Net fees ÷ standard fees.
- **Profit margin** = Net income ÷ net fees.
- **Net income per partner (NIPP)** = Leverage x utilization x billing rate x realization x profit margin.

time, though staff cuts could be having an impact on this metric already.

Billing rate. For many breakout groups, the average rate is up this year, an encouraging sign that despite the economy, CPA firms have continued to raise rates. The most dramatic change: The average for firms with one to five people soared from \$105 an hour in the 2009 research to \$134 in this year's survey.

Realization. The other major metric this year, realization, is down slightly overall to 91.3 percent from a year ago (92.1 percent). No strong patterns emerged in the data here, although the smallest firms (one to five people) saw the most dramatic change: 89.5 percent a year ago and 95.9 percent this year.

In a recession, you might anticipate more adjustments to fees that would create changes in

realization, but this has not proven to be the case, another good sign for the profession now.

Net income per partner. This metric shows that for some firms, the past year continued to be very profitable. Average NIPP among all survey respondents in the 2010 survey was \$330,723, a very healthy climb from the 2009 respondent average of \$283,364.

Increases were most dramatic for the firms in the 26-to-50-person group: NIPP rose from \$320,912 in the year ago survey to \$467,286 in this year's results. Even when there was a decline in average NIPP, it was not a huge one.

For more information. Complete results of AO-MAR's *CPA Firm Practice Management Survey 2010* are in *CPA Firm Financial & Operational Benchmarks 2010*, just published by IOMA. Visit www.ioma.com/cpa for more information. □

Performance Ratios, by Number of Personnel, 2010 and 2009

	2010 1 to 5	2009 1 to 5	2010 6 to 10	2009 6 to 10	2010 11 to 15	2009 11 to 15	2010 16 to 25	2009 16 to 25	2010 26 to 50	2009 26 to 50	2010 > 50	2009 > 50	2010 Overall	2009 Overall
Leverage	3.0	3.3	4.4	5.4	5.1	6.5	8.1	6.6	7.5	9.3	10.4	9.6	6.6	6.8
Utilization	1,122	1,107	1,170	1,102	1,316	1,215	1,153	1,103	1,161	1,082	1,157	1,091	1,164	1,108
Billing rate	\$134	\$105	\$109	\$107	\$115	\$115	\$127	\$134	\$151	\$138	\$151	\$153	\$135	\$132
Realization	95.9%	89.5%	96.5%	96.1%	92.1%	93.1%	89.9%	95.8%	92.3%	88.1%	83.7%	88.6%	91.3%	92.1%
Profit Margin	49.9%	39.6%	38.4%	34.1%	30.1%	35.1%	32.4%	35.4%	36.0%	35.5%	31.3%	30.1%	36.5%	34.8%
Net income per partner (NIPP)	\$172,225	\$129,573	\$183,424	\$193,666	\$181,871	\$172,861	\$268,587	\$263,995	\$467,286	\$320,912	\$483,279	\$407,091	\$330,723	\$283,364

(Sources: CPA Firm Practice Management Surveys, 2009 and 2010)

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