

# Professional Services Sector

10.5.2020

NAICS CODES: 54

SIC CODES: 731 , 737 , 81 , 871 , 872 , 873 , 8741, 8742, 8743, 8745

## Industry Overview

Firms in this industry provide accounting, advertising and marketing, architectural, consulting, engineering, IT, legal, and scientific research services. Major firms include US-based AECOM, Bechtel, DXC, IBM, IQVIA, Jacobs Engineering Group, Latham & Watkins, McKinsey & Company, and Omnicom, as well as Accenture (domiciled in Ireland), Capgemini (France), Deloitte Touche Tohmatsu (UK), PricewaterhouseCoopers (UK), and WPP (UK).

The US and the European Union are the largest markets for professional services, although firms are expanding in emerging economies such as India and China.

The US professional services industry includes about 900,000 establishments (single-location firms and units of multi-location firms) with combined annual revenue of about \$1.8 trillion.

## Competitive Landscape

Professional services providers face a number of challenges, from dependence on corporate spending and trends in the global economy to customers or potential customers choosing to do the work themselves. While the average business may not decide to in-source architectural plans for a new office, accounting, marketing, and IT services can all be brought in-house and often are.

Large companies are better positioned to win national accounts. Small companies can compete effectively by offering highly specialized services or focusing on a single geographic region or local market; they typically also have less overhead, which allows them to charge less. The US industry is highly fragmented: the 50 largest firms account for less than 20% of revenue.

### Competitive Advantages:

**Investing in Technology** -- Some law firms have embraced artificial intelligence and used it to create custom tools for clients or launch in-house legal advice chatbots. Companies can also use electronic discovery, legal process outsourcing, and offshore legal support services to reduce costs and save lawyers' energies for complex tasks. In advertising, agencies that can help customers keep their footing in traditional TV and print ads while successfully navigating online and social media marketing will attract more customers.

**Structure** -- With so many professional services firms now operating across borders, the need to limit liability and have flexible management structures continues to grow. In legal services, two popular corporate structures that address both needs are vereins (associations) and company limited by guarantee (CLG, or not-for-profit).

**M&A** -- Many professional services firms increasingly seek growth through acquisitions. Large firms combine with each other, often across borders, and firms of all sizes buy smaller companies to add expertise in certain industries or offices in certain countries.

**Offering Simplicity** -- Major global corporations, which are the customers of many professional services firms, are trying to streamline and reduce complexity in their own businesses. Professional services firms that can bring together multiple offerings in a simplified approach stand to benefit.

### Companies to Watch, Legal:

**Kirkland & Ellis** serves elite, niche clients in the corporate, intellectual property, tax, restructuring, and litigation fields. The company is a leading revenue earner in the legal field.

Dentons has more than 10,000 lawyers worldwide, a number of whom are located in China. No other firm in the global top 20 has that kind of focus on China. The company has conducted a large number of acquisitions to grow in

recent years.

DoNotPay started as a bot to help people fight parking tickets in the UK. The company has expanded to cover hundreds of issues including consumer, immigration, and workplace legal areas in the US and the UK, free of charge.

#### Companies to Watch, Advertising:

Already one of the largest consulting firms, **Accenture** has purchased numerous companies to expand its capabilities in the advertising and marketing digital transformation space. The company's interactive division is the world's largest digital ad agency, according to Ad Age.

**Preacher**, an emerging independent, boasts established clients like Crate & Barrel as well as newcomers Venmo (owned by Paypal) and youth apparel firm Bonobos. The agency won acclaim for showing the human side of VR with its ads for Samsung Gear VR headsets.

Canadian firm **Zulu Alpha Kilo** was Ad Age's International Small Agency of the Year in 2017. Providing ideas and proposals on spec has long been a staple of the advertising industry, but Zulu Alpha Kilo has a strict no-spec policy so it can focus resources on existing clients.

#### Companies to Watch, Consulting:

**Bain & Company** -- One of the top three management consulting firms, Bain provides services in more than 25 countries. The company specializes in M&A work.

**Deloitte Consulting** gets high marks for its work helping clients improve efficiency and profitability across a wide range of industries from autos to energy and even for its legal work.

**Tata Consultancy Services**, India's largest software exporter, is also a strong global player in the IT services industry. It offers services including application development and business process consulting.

## Products, Operations & Technology

The three largest professional services segments are IT services (24% of industry revenue), architectural and engineering services (17%), and legal services (16%). Consulting services account for about 14%, followed by scientific research (9%) and accounting services (8%). Other segments include advertising and specialized design services.

**IT services** firms provide computer systems design, development, and integration services; application design and development services; and technical support. IT services companies help clients select hardware and software systems and assist them in using computers, software, and communications systems more efficiently. They also provide services such as business function outsourcing, data warehousing, systems planning, enterprise resource planning, and training. **Architectural services** firms plan and design residential, institutional, leisure, and industrial buildings and spaces, as well as landscapes. **Engineering firms** provide construction design and management, industrial process design, systems engineering, and maintenance and operations. **Law firms** typically operate as partnerships. Operations support the provision of legal advice and other services, such as document preparation and production, legal filings, and litigation. Most work falls under the general categories of transactional or litigation.

Professional services often involve expert advice, but routine operations, transactions processing, design work, and project supervision are also included in the industry. Most work is **project-oriented**, although many legal and accounting services are delivered on a continuing basis.

Firms consist mainly of a **staff of professionals** with various levels of expertise, along with support personnel with technical or clerical skills. A typical customer project is supervised by senior staff and executed by a team of junior professionals and support staff. In some cases a project team can include hundreds of individuals and require complex coordination. Some professional firms provide services that require **special expertise** but are needed only occasionally. Organizations that provide intermittent or one-time services typically work with many different clients at the same time.

#### Technology

Many professional firms have big investments in computer and communications technology, because a large amount of work is done outside the home office. Coordination among team members is also critical, making cloud computing a good option. **Project management software** is used extensively. Engineering, advertising, and architecture firms also use advanced computer aided design (CAD) and video editing systems. **Building information modeling (BIM)** software allows architects and designers to create and communicate building design, predict performance, and better estimate building costs before construction begins. **3D printing** technology has transformed the way new products are modeled and developed, allowing engineers to transform plans into tangible objects more quickly and affordably. Engineering and architecture firms also increasingly use drones to survey sites and do safety inspections. For the IT service industry, rapid evolution of computers, telecommunications, and software makes staying abreast of the latest technology a perennial industry challenge. The high degree of **specialization** within the industry makes it easier for firms to understand developments in their own niches. But too much specialization can

leave a company vulnerable to obsolescence if customers shift to new technology. Modern providers of IT services must be well-versed in managing **cloud-based technology**, which enables companies to deliver software applications and data management services over the internet from a central source. Cloud-dependent categories include mobile apps, big data, and social media, as well as Software as a Service (SaaS) applications - including customer relationship management (CRM) and enterprise resource management (ERM) programs - and system infrastructure software (SIS). Computer and communication technology are essential for many law firms to handle administrative functions, conduct legal research, and, in some cases, to file documents with courts. Computerized phone systems and software track lawyers' billable hours. **Vide Conferencing technology** is used for meetings, training sessions, depositions, and settlement conferences. Some firms enable clients to access certain systems to exchange messages, review and edit documents, and receive copies of filings. Law firms increasingly use software to automate processes related to accounts payable and billing, client communications, compliance checks, information gathering, and document creation. Cloud computing is also driving virtual business models for lawyers.

## Sales & Marketing

Most professional work is for corporate customers, although a big portion of legal work is for individuals. Consequently, most marketing is aimed at establishing long-term relationships with corporate customers or enhancing the firm's reputation. New customers may come through referrals from other firms, sales calls on potential customers, or **bids** on new projects. Bidding is common in the advertising, consulting, engineering, and IT services sectors. A bid generally consists of a plan for how a project will be done and a cost estimate. Firms are often invited to bid on a project in competition with other firms through a **request for proposal** (RFP).

Larger firms often advertise their areas of expertise in industry publications. Small firms typically rely more on referrals and local advertising. Industry conferences and meetings are also important sources of new customer contacts.

Many firms — especially smaller legal, accounting, and engineering firms — get a large amount of work on a recurring basis from existing customers. Large firms frequently have **long-term relationships** with corporate or government customers that they maintain by supplying a range of services. The loss of a large customer account can have a major effect on revenue. Advertising and accounting firms, in particular, must deal with turnover among major customers.

The size of professional firms depends partly on the **breadth of expertise** a firm can offer, partly on how many customers a firm wants to serve, and partly on how easily it can reproduce its basic service unit. Size is important for large corporate customers who want to hire a firm that can provide a full range of services. Some of the largest professional firms are collections of semi-autonomous offices that all offer similar services.

Because many projects require a breadth of expertise that individual firms may not have, partnerships or **alliances** with other firms are common. Small firms may get a major part of revenue providing services to other professional firms, particularly in the legal and engineering service segments.

Professional service firms' biggest competitors are in-house company operations. Instead of **outsourcing** services to an accounting or legal firm, customers may use their own accounting services or legal services in order to cut costs. As firms take advantage of business opportunities abroad, international competition increases as well.

## Finance & Regulation

Most professional firms are paid according to the amount of time they devote to clients' projects, typically measured by the hour. Even firms that bid on fixed-price contracts usually estimate their costs by figuring out how many hours of work will be required. The **hourly rates** that firms charge vary by segment and depend on the expertise of the professionals or other workers involved. Some professional firms are paid under different arrangements, such as a percentage of the value of ad placements, for an advertising firm. Other firms may be willing to negotiate pay-for-performance or value-oriented billing deals as alternatives to hourly charges, especially in challenging economic times.

Arrangements with a customer for a particular project are usually embodied in a **contract** that describes the expected performance and payment schedule. Many contracts call for an initial payment and then various **progress payments** as the work is being done. Some contracts, especially in the engineering segment, can have progress payments spread out over several years. Contracts also spell out who pays for **cost overruns**, a major risk in the engineering segment and often present in IT-related work and management consulting.

The major asset of professional firms is the expertise of their workers. Firms usually don't have significant inventories, capital equipment, or other property. **Receivables** are often the largest financial asset, and bad debt expense can be a major risk. Cash flow is often uneven, depending on periodic billings or progress payments. Firms with international business may have foreign currency exposure.

## Working Capital Turnover by Company Size

The working capital turnover ratio, also known as working capital to sales, is a measure of how efficiently a company uses its capital to generate sales. Companies should be compared to others in their industry.



Financial industry data provided by MicroBilt Corporation collected from 32 different data sources and represents financial performance of over 4.5 million privately held businesses and detailed industry financial benchmarks of companies in over 900 industries (SIC and NAICS). More data available at [www.microbilt.com](http://www.microbilt.com).

## Regulation

Accountants, architects, engineers, and lawyers are regulated by state licensing authorities that are meant to certify a minimum level of competence and adherence to ethical standards. Advertising firms must ensure their work complies with standards set by agencies such as the FCC and the FTC.

Some professional services industries, such as consulting and IT services, are more lightly regulated, but firms must comply with state and federal laws related to corruption, immigration, labor, and trade. Companies that do business with the US government fall under various contracting and accounting regulations, including federal acquisition rules, cost accounting standards, and federal agency audits.

## International Insights

The US and the EU are among the largest markets for many professional services. However, many firms are targeting **emerging economies** to expand geographical reach and grow revenues. India, China, and other parts of Asia are expected to see the most growth.

Worldwide spending on **IT services** is about \$993 billion annually, according to Gartner. Top exporters of computer services include the EU, India, the US, Singapore, and Israel, according to the World Trade Organization. A digital divide regarding access to and use of information and communication technologies hinders Africa's participation in exports of IT services. Major companies include Cognizant (US), Accenture (Ireland), Capgemini (France), and Tata Consultancy (India). Global construction output, a main driver for **architectural and engineering services**, is growing quickly and will reach \$15 trillion by 2025, according to PricewaterhouseCoopers. Top engineering companies include AECOM (US), Nikken Sekkei (Japan), SNC-Lavalin Group (Canada), and WorleyParsons (Australia). Global engineering consultancies often are managed regionally, which increases understanding of clients in different markets. The biggest firms in the global **legal services** industry are headquartered in the US and UK. Larger firms continue to expand their global footprint to take advantage of rising demand for international law expertise. Leading firms in the UK include Clifford Chance and DLA Piper. Other key markets in the global legal services industry include Australia, Canada, France, Spain, and the Netherlands. The global **consulting services** industry generates more than \$490 billion annually, according to Plunkett Research. Major international consulting firms include Accenture (domiciled in Ireland), Capgemini (France), McKinsey & Company (US), and Tata Consultancy Services (India), as well as the consulting arms of the Big Four accounting firms -- Deloitte, Ernst & Young, KPMG, and PricewaterhouseCoopers.

Global spending on **research and development**, a demand driver for scientific research services, is about \$2.3 trillion, according to R&D Magazine. Major markets include the US, Europe, and China. Global R&D investment has

been growing steadily over the last several years, with China leading the charge. Major companies include IQVIA (US), AKKA Technologies (Belgium), and Qinetiq Group (UK). The Big Four firms — Deloitte Touche Tohmatsu, Ernst & Young, KPMG, and PricewaterhouseCoopers — dominate the global **accounting services** industry. They have expanded in many countries by buying local firms; in countries such as China they have affiliated with local firms. A single set of International Financial Reporting Standards (IFRS) is being adopted by many countries to enhance global consistency, which may reshape the accounting industry. Global ad spending is about \$620 billion per year, according to a forecast from the World Advertising and Research Center. Large international **advertising and marketing** firms include WPP (domiciled in Ireland), Dentsu (Japan), and Omnicom (US). The top markets by ad spend include the US, China, Japan, the UK, and Germany, according to Zenith. Outside of the US, major contributors to ad spend growth include China, India, Japan, and the UK.

Firms with international operations are subject to a host of risks in both developed markets and emerging markets. **Regulatory requirements** vary, and integration of new operations can require significant resources. Challenges of operating in emerging markets include possible **political unrest**, poverty, and corruption. Effectively managing foreign exchange risk is critical, especially for large firms that generate significant portions of their revenue from international operations.

## Regional Highlights

In the US, large professional services firms often cluster in major cities near the headquarters of key customers, as frequent contact with executives at client companies is an important marketing practice. Smaller professional services firms are located throughout the US. States with the most professional services establishments include **California, Florida, Texas, New York, and Illinois**.

## Human Resources

Attracting, training, and retaining expert staff is a major issue for professional services firms, especially for those with just a handful of employees. Many firms are organized as partnerships and attract new professional staff by offering the opportunity to attain partner status.

Professionals can earn high salaries because of their expertise; support staff are paid less. Wages vary among industry sectors. The average hourly wage for the professional services sector overall is **significantly higher** than the US average. The injury rate for the industry is about 50% lower than the US average.

Industry Employment Growth  
Bureau of Labor Statistics



## Industry Growth Rating



Demand: Driven by corporate profits and outsourcing  
Need efficient use of expensive labor and regular flow of work  
Risk: Economic health impacts spending on services

### 10.5.2020

**Trend: Companies Return to Work Amidst Health Crisis** - Many business firms are returning to business-as-usual while leaders have to reorganize supply chains, adapt remote operations, and even make financial adjustments for the sake of rebuilding organizations towards an uncertain future. Companies will have to rapidly adapt to changes hence the urgency to reimagining business processes. McKinsey and Company's research has outlined actions that companies can do such as restructuring the workforce from the top down, resetting technology plans, and considering the role of government and regulation. Similarly, there are also private financial assistance and government support schemes available to get professional services back to business.

**Industry Impact** - Companies, especially small to medium businesses, are optimistic to recover and survive during the pandemic while considering alternatives such as financial assistance to recalibrate business plans and innovate operations.

### 6.22.2020

**Challenge: Reduced Demand for Services Due to COVID-19** - Many companies are seeing a reduced demand for professional services as clients cut back on spending due to the economic downturn sparked by the COVID-19 pandemic. While the IT services industry has seen increased demand for cloud services as companies scramble to support remote workers, clients are also cutting back on long-term IT upgrades such as digital transformations to cut expenses, according to the Wall Street Journal. Major consulting firms including McKinsey and Boston Consulting are delaying start dates for new hires due to reduced business volumes and visa or travel difficulties. Moving to completely online services as stay-at-home orders shut down offices has challenged small firms, including law offices. Suspension of in-person trials have also delayed legal activities.

**Industry Impact** - Companies are experiencing some financial difficulties due to lower customer demand for services during the COVID-19 pandemic, leading firms to make efforts to reduce expenses.

### 8.19.2019

**Opportunity: Ad Agencies Tap into Influencer Marketing** - More of the world's biggest ad agencies are linking brands with "influencers," a term used to describe people who may have sway with a large number of followers on Instagram, Snapchat, and other social media apps, according to a recent account from The Financial Times. Brands often pay influencers to promote products, typically fashion and beauty items, via photos, comments, and hashtags posted on their account. WPP, Publicis, and Omnicom are ramping up their investment in the space in order to reach younger consumers, including millennials and even younger members of "Generation Z." Examples of new product development in the space include Omnicom's launch of an AI-driven tool to match brands to influencers. Spending on influencer marketing is expected to reach \$6.5 billion in 2019, up from \$1.7 billion in 2016, according to the Influencer Marketing Hub, while the number of new platforms and agencies in the market has almost doubled from 335 in 2016 to 740 at the end of 2018.

**Industry Impact** - Providers of advertising and marketing services may need to invest more resources in influencer marketing to reach younger consumers.

### 4.29.2019

**Opportunity: Spending on Consulting Forecast to Grow** - Global demand for management consulting services is expected to increase about 6% in the next one to two years despite macroeconomic uncertainty and political turmoil, according to new data from Source Global Research. The London-based firm, which provides research and advice about the global management consulting industry, surveyed some 3,000 executives in major markets. It found some 60% will spend more on consulting in the near future, particularly in data and analytics, as well as in digital transformation. Another survey recently cited in Forbes, from management consulting firm Business Talent Group, looked at skills and project demand for independent consultants in 2019. It found that the most in demand projects for independent consultants - some 60% - concern strategy, which includes marketing and sales strategy, growth

strategy, and product strategy. The most in demand skills include project management and knowledge of market landscape. More than 80% of large enterprises use independent consultants, particularly in the life sciences, financial services, and insurance industries.

**Industry Impact** - Consultancies will likely need to hire workers with experience in areas such as digital transformation, strategy, and project management to meet the rise in demand for such skills and services.

## Industry Indicators

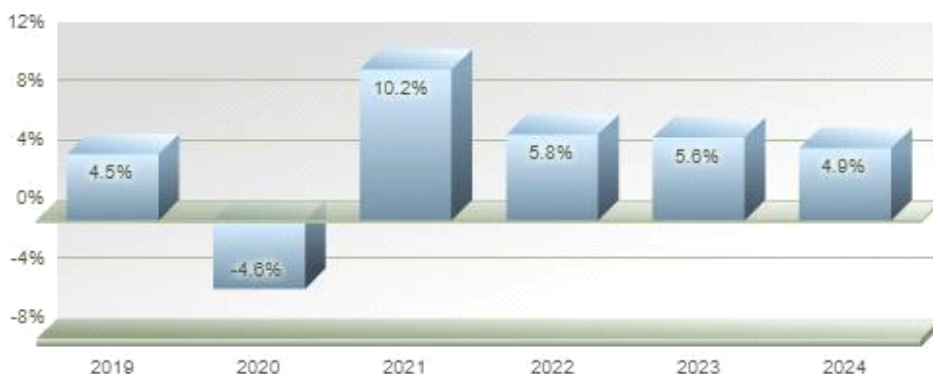
US corporate profits, an indicator of corporate demand for professional services, fell 20.1 percent in the second quarter of 2020 compared to the same period in 2019.

US personal income, which drives consumer demand for professional services, rose 8.2 percent in July 2020 compared to the same month in 2019.

Total US revenue for professional, scientific, and technical services fell 7.6 percent in the second quarter of 2020 compared to the same period in 2019.

## Industry Forecast

Revenue (in current dollars) for US professional services is forecast to grow at an annual compounded rate of 5% between 2020 and 2024. Data Published: July 2020



First Research forecasts are based on INFORUM forecasts that are licensed from the Interindustry Economic Research Fund, Inc. (IERF) in College Park, MD. INFORUM's "interindustry-macro" approach to modeling the economy captures the links between industries and the aggregate economy. [Forecast FAQs](#)

## Industry Drivers

Changes in the economic environment that may positively or negatively affect industry growth.

Data provided by First Research analysts and reviewed annually



**Technology Innovation** Advances in science and technology, including information technology



**Government Regulations** Changes in federal, state, or local government regulations or business-related policies

## Critical Issues

**Corporate Spending Sharply Affects Revenue** - Many corporate customers cut outside expenses or delay major projects when profits are low. The revenue of many professional firms dropped during the late 2000s recession; particularly hard-hit were advertising, engineering, and IT services firms. Corporate customers depend on some professional services and view others as discretionary.

**Greater Liability for Professional Advice** - Because of the greater involvement of professional firms in the operations of corporate customers, firms face greater risk of blame or liability if their advice proves faulty. Customers are quicker to blame advisers, and regulators are more likely to impose penalties. Accountants and lawyers, in particular, are subject to discipline from licensing authorities if professional standards are violated.

## Business Challenges

**Customer Concentration** - Many small professional firms get a big percentage of revenue from a few large customers. Despite often having longstanding relationships, customers may cancel or postpone projects for reasons unrelated to the quality of a firm's service. These large customers can demand lower prices, hurting profitability, or may shift business to another firm, severely affecting revenue.

**Dependence on Key Employees** - Small and midsized firms may depend heavily on a few senior employees to produce a large share of revenue. Professionals with a well-known expertise often take clients with them when they leave a firm. Many smaller firms rely on just a few managers to find new business.

**Uneven Workload, Cash Flow** - Because much work in the industry is on a project basis, work demands can be very uneven, especially for smaller firms. Cash flow can also be uneven when a firm receives the bulk of a client's payments upon a project's completion rather than on a regular billing cycle. Small firms can't usually afford to cut their workforce when activity is slow.

**Future Business Relies Heavily on Reputation** - Name recognition and reputation are important in highly competitive professional services sectors. Just as a good reputation can help a company acquire new business, damage to a reputation can result in the loss of existing and potential clients and hurt employee recruitment and retention. Any damage to a firm's reputation can be very costly to repair.

**Industry Concentration** - Many professional firms specialize in providing services to companies in a particular industry, such as real estate, manufacturing, or technology, and are disproportionately hurt if that industry is in a downturn. Large firms often serve a range of industries, but midsized firms have often grown by expanding within an industry and are particularly vulnerable.

**Cyber Attacks** - Increases in data breaches put professional services firms and their customers at risk. Security challenges such as aging internet infrastructure, widening connectivity, and growing cyber-criminal behavior pose significant threats for lawyers, consultants, accountants, and others. Firms need to ensure that the proper safeguards are in place, such as appropriate technology and employee training, to preserve the security of company and customer data.

## Business Trends

**Cloud Computing** - Professional services firms are increasingly adopting cloud-based technologies to coordinate and communicate with employees and clients. Cloud computing refers to software resources that are delivered over public or private networks, which are typically hosted by third-party providers. Such systems can help firms save money in the long run by reducing the need for expensive data centers and onsite IT departments. Many potential customers in the private and public sectors are also transitioning to cloud-based applications and remote data storage, creating more demand for firms that provide IT consulting and support services.

**More Value-Oriented Billing** - The basic source of revenue for professional firms remains hourly billing, but some also bill according to the value of the services they provide. Value-oriented billing is easiest to apply for services where the value is explicit, such as tax savings, damage awards, ad placements, or the size of an acquisition or



merger. Professional service firms may adopt value-oriented billing policies if they act as general advisers for clients rather than performing work on an hourly basis.

## Industry Opportunities

**Greater Complexity of Corporate Operations** - The operations of corporations (the major customers of most professional service firms) and the regulatory climate have become more complicated in the past decade, leading more corporations to seek outside expert advice. It may be more cost- and time-efficient for a company to hire a professional services firm than to train existing personnel about new technology or regulations. In many cases the hired firm assumes responsibility for knowledge of regulatory changes.

**Corporate Outsourcing** - The drive for greater efficiency through outsourcing corporate functions will continue to put more work in the hands of professional firms. Instead of maintaining a large internal staff of lawyers, accountants, engineers, and computer specialists, corporations have turned to a management model where in-house staff merely coordinate the work of outside vendors. Although hourly costs for outside professionals are higher, corporations save money because the outsiders are not needed all the time.

**More International Business** - Greater global trade will provide more opportunities for many professional services firms, as more overseas business is handled according to US business standards. Many professional services are easily transferable to foreign customers. In some cases, US professional services firms can expand into markets where labor and operational costs are lower.

**Multi-Service Firms** - Some larger professional firms offer a range of services that may include related offerings such as advertising and marketing, architecture and engineering, or management and IT consulting. Multi-service firms can bundle services to offer "one-stop shopping" and increase profitability. Such firms sometimes involve entities that are distinct for legal or regulatory reasons whose work is nevertheless closely coordinated.

**Government Sector Demand** - Increases in state and federal government spending on data security, health care administration, and education technology are creating new opportunities for professional services firms. Agencies are outsourcing more IT and consulting projects as a less-expensive alternative to hiring more full-time employees. Firms that work as government contractors must be able to navigate complex bidding processes and compliance requirements. Although government contracts can be lucrative, they can also be risky, as publicly funded agencies are often forced to cut costs due to budget constraints.

## Financial Information

### COMPANY BENCHMARK TRENDS

#### Quick Ratio by Company Size

The quick ratio, also known as the acid test ratio, measures a company's ability to meet short-term obligations with liquid assets. The higher the ratio, the better; a number below 1 signals financial distress. Use the quick ratio to determine if companies in an industry are typically able to pay off their current liabilities.



Financial industry data provided by MicroBilt Corporation collected from 32 different data sources and represents financial performance of over 4.5 million privately held businesses and detailed industry financial benchmarks of companies in over 900 industries (SIC and NAICS). More data available at [www.microbilt.com](http://www.microbilt.com).

### Current Liabilities to Net Worth by Company Size

The ratio of current liabilities to net worth, also called current liabilities to equity, indicates the amount due creditors within a year as a percentage of stockholders' equity in a company. A high ratio (above 80 percent) can indicate trouble.



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## COMPANY BENCHMARK INFORMATION

NAICS: 54

Data Period: 2018

Last Update February 2020

Table Data Format

Mean

Company Size

All

Large

Medium

Small

Size by Revenue		Over \$50M	\$5M - \$50M	Under \$5M
Company Count	785752	944	12447	772361

### Income Statement

Net Sales	100%	100%	100%	100%
Gross Margin	78.7%	77.6%	79.0%	80.2%
Officer Compensation	7.4%	7.2%	5.9%	8.3%
Advertising & Sales	0.9%	0.7%	1.1%	1.0%
Other Operating Expenses	67.1%	65.4%	70.1%	68.3%
Operating Expenses	75.4%	73.4%	77.2%	77.5%
Operating Income	3.3%	4.2%	1.8%	2.7%
Net Income	1.5%	2.1%	0.7%	1.2%

### Balance Sheet

Cash	21.2%	20.6%	20.9%	22.3%
Accounts Receivable	25.3%	25.8%	26.5%	23.8%
Inventory	3.3%	3.5%	3.3%	3.0%
Total Current Assets	60.3%	61.0%	61.4%	58.7%
Property, Plant & Equipment	14.2%	13.5%	13.6%	15.7%
Other Non-Current Assets	25.5%	25.5%	25.0%	25.6%
Total Assets	100.0%	100.0%	100.0%	100.0%
Accounts Payable	9.2%	8.9%	10.4%	8.9%
Total Current Liabilities	32.5%	31.1%	34.3%	33.9%
Total Long Term Liabilities	23.1%	20.4%	23.9%	27.2%
Net Worth	44.4%	48.5%	41.9%	38.9%

### Financial Ratios

(Click on any ratio for comprehensive definitions)

Quick Ratio	1.49	1.55	1.45	1.42
Current Ratio	1.86	1.96	1.79	1.73
Current Liabilities to Net Worth	73.2%	64.2%	81.9%	87.2%
Current Liabilities to Inventory	x9.85	x8.90	x10.36	x11.41
Total Debt to Net Worth	x1.25	x1.06	x1.39	x1.57
Fixed Assets to Net Worth	x0.32	x0.28	x0.33	x0.41
Days Accounts Receivable	51	54	49	48
Inventory Turnover	x11.62	x11.07	x12.62	x12.15
Total Assets to Sales	56.1%	58.3%	50.9%	55.3%

<b>Working Capital to Sales</b>	15.6%	17.4%	13.8%	13.7%
<b>Accounts Payable to Sales</b>	5.1%	5.2%	5.2%	4.9%
<b>Pre-Tax Return on Sales</b>	2.5%	3.3%	1.2%	1.9%
<b>Pre-Tax Return on Assets</b>	4.4%	5.7%	2.4%	3.4%
<b>Pre-Tax Return on Net Worth</b>	10.0%	11.7%	5.6%	8.7%
<b>Interest Coverage</b>	x3.30	x4.44	x1.96	x2.37
<b>EBITDA to Sales</b>	6.0%	6.9%	4.6%	5.4%
<b>Capital Expenditures to Sales</b>	2.9%	2.8%	3.1%	3.0%

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## VALUATION MULTIPLES

### Professional Services Sector

Acquisition multiples below are calculated medians using at least 3 US private industry transactions completed between 1/2008 and 12/2019 and are based on middle-market transactions where the market value of invested capital (the selling price) was less than \$1B. Data updated annually. Last updated: December 2019.

Valuation Multiple	MVIC/Net Sales	MVIC/Gross Profit	MVIC/EBIT	MVIC/EBITDA
Median Value	0.6	0.8	3.1	2.1

**MVIC (Market Value of Invested Capital)** = Also known as the selling price, the MVIC is the total consideration paid to the seller and includes any cash, notes and/or securities that were used as a form of payment plus any interest-bearing liabilities assumed by the buyer.

**Net Sales** = Annual Gross Sales, net of returns and discounts allowed, if any.

**Gross Profit** = Net Sales - Cost of Goods Sold

**EBIT** = Operating Profit

**EBITDA** = Operating Profit + Noncash Charges



SOURCE: DealStats (formerly Pratt's Stats), 2019 (Portland, OR: Business Valuation Resources, LLC). Used with permission. DealStats is available at <https://www.bvresources.com/learn/dealstats>

## Industry Websites

### AccountingWEB

Industry news, links, services.

### Advertising Age

News. Industry data on advertising, media, and marketing industries.

### AICPA

Industry news and current issues.

**American Bar Association**

Ethics, news, education.

**American Institute of Architects**

Primary site for information, articles, and statistics.

**Canadian Bar Association**

Media, events, advocacy, and links.

**Canadian Marketing Association**

News, events, publications, consumer information.

**Chartered Professional Accountants of Canada (CPA Canada)**

News, events, and information.

**CMC - Canada**

Media, events, links, and industry resources.

**Engineering News-Record**

News by specialized areas, articles. Listings of Top Firms.

**InformationWeek**

News, see Business Services section.

**International Trial Attorneys Association**

Global organization for trial lawyers. Discussion of international legal issues.

**Law.com**

Industry news.

## Glossary of Acronyms

**CAD** - computer-aided design

**CFR** - Code of Federal Regulations

**CRM** - customer relationship management

**EPC** - engineering, procurement, construction

**ERP** - enterprise resource planning

**FASB** - Financial Accounting Standards Board

**GAAP** - Generally Accepted Accounting Practices

**LPO** - legal process outsourcing

**MDP** - multidisciplinary practice

**RFP** - request for proposal