MODULE 0 · THE BUSINESS OF WESTON & SAMPSON

THE ECONOMIC MODEL

Weston & Sampson

WHAT OUR FIRM SELLS

Weston & Sampson sells the professional knowledge and time of its staff, so our economics rely almost entirely on labor. An hour that no one applies to a client's problem today cannot be sold in a later period, which makes every staffing decision an economic decision.

WHAT MAKES WESTON & SAMPSON UNIQUE

Breadth. Engineering, environmental, architectural, survey, and construction management in one organization, so a client's problem runs from investigation through construction without a handoff.

Ownership. The people employed within the company own its stock, so the margin well-managed work earns is retained by the staff who produced it. The work our firm has under contract and the work it expects to win affect the value of every employee's stock, making the quality of our pursuit decisions relate directly to our firm's value.

01 ECONOMIC LANGUAGE

REVENUE · WHAT THE CLIENT PAYS

Gross Revenue. A project’s full fee, including ODC.

Other Direct Costs (ODC). Subconsultant, vendor, and reimbursable amounts inside a project’s revenue. Owed to another party, so they pass through our firm without becoming earned revenue.

Markup. Added to subconsultant and reimbursable costs, targeting 15 percent at the project manager’s discretion. Our firm keeps it.

Net Revenue. The part of the fee our firm keeps once ODC are subtracted at cost. Net Revenue = Gross Revenue − ODC.

Project profit. Net Revenue less direct labor and overhead on one project. Aggregated across all projects, it is reported as operating income.

COST · WHAT DELIVERY CONSUMES

Direct labor. The effective unit salary cost of the staff performing the work, charged to a project.

Unit hourly salary cost. What one hour of a person’s time costs our firm before overhead. Annual salary ÷ 2,080 hours.

Indirect labor. The cost of staff time not charged directly to a project.

Nonlabor costs. Nonlabor expenses our firm incurs in the normal operation of business, including rent, computers and software, insurance, bonuses, and contributions to the employee stock ownership plan.

Overhead. The combination of indirect labor and nonlabor costs.

RATIOS · HOW PERFORMANCE IS MEASURED

Overhead rate. Overhead dollars spent for each direct labor dollar. Varies year to year and is audited regularly. **1.85** throughout this text.

Breakeven rate. The multiple of direct labor at which Net Revenue recovers direct labor and overhead and returns no project profit. **2.85**.

Effective Labor Multiplier (ELM). Net Revenue divided by direct labor, for a person, a project, or the firm. It varies at each level. Our aggregate target is **3.30**.

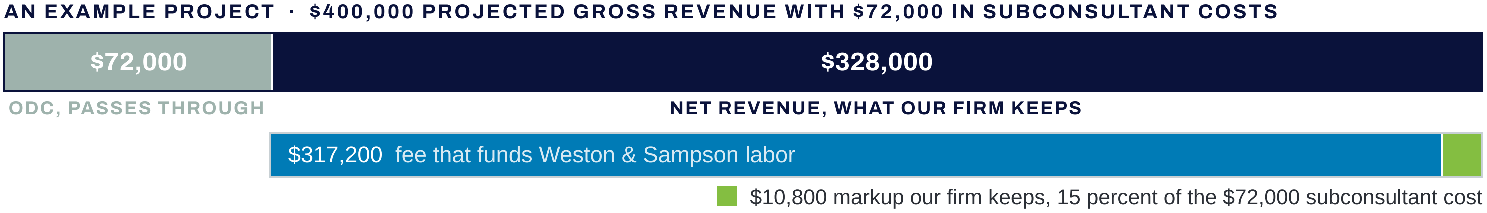
Utilization. The share of total labor charged directly to projects.

Billing rate. What our firm charges a client for one hour of a person’s time, built to achieve at least the target ELM at completion.

02 THE FEE, DIVIDED

Projected Gross Revenue − ODC at cost = Net Revenue

AN EXAMPLE PROJECT · $400,000 PROJECTED GROSS REVENUE WITH $72,000 IN SUBCONSULTANT COSTS



Some project types permit no markup. The project manager verifies the allowance in the solicitation and codifies any requirement or restriction in the proposal.

Future work is planned against Net Revenue only, which is Gross Revenue less ODC.

THE ECONOMIC MODEL CONTINUED

Weston & Sampson

03 WHAT NET REVENUE FUNDS

Project Profit = Gross Revenue − ODC − Direct Labor − Overhead

	Direct Labor	Overhead	Profit
BREAKEVEN 2.85	$1.00	$1.85	*no profit*
TARGET ELM 3.30	$1.00	$1.85	$0.45
PER $1.00 OF DIRECT LABOR	DIRECT LABOR	OVERHEAD	PROFIT
PER $100 OF NET REVENUE	$30.30	$56.06	$13.64

The same ratio, expressed two ways. It holds at every scale: one hour of labor, one project's fee, and a full year of performance.

OVERHEAD, AT A RATE OF 1.85

Each dollar of direct labor charged to a project carries $1.85 of overhead with it, and that sum establishes the breakeven cost for the project. Our goal as a firm is to pursue a mix of work that achieves our target ELM in the aggregate.

Sometimes, our firm pursues work that is unlikely to achieve our target ELM. Our Go/No-Go process establishes certain strategic criteria that influence when this may be the case and the types of questions to answer to consider the pursuit of potentially less profitable work. Such projects must be pursued in a a balanced way such that our firm still exceeds our target ELM in the aggregate.

THE SAME MODEL BUILDS THE BILLING RATE

The ELM scales up and down are entire economic model, from an hour of staff time up to the firm's overall performance.

Consider a Weston & Sampson team member earning $72,800 a year, across 2,080 working hours:

$35.00 salary cost per hour ×2.85 **$99.75** rate at breakeven ×3.30 **$115.50** rate at the target ELM

Every hour billed at $115.50 returns $15.75 more than the hour costs our firm to deliver.

The project Principal approves any write-off and any ELM, rate, or profitability goal below the corporate target.

04 THREE METRICS, HELD IN BALANCE

Each measures one element of the model

Revenue efficiency

ELM = Net Revenue ÷ Direct Labor

Win the right projects at the right fees, priced to achieve the target ELM in aggregate.

Labor efficiency

Utilization = Direct Labor ÷ Total Labor

Hold the right project mix and the right work in the right disciplines to keep staff productive.

Overhead efficiency

Rate = (Total Cost − Direct Labor) ÷ Direct Labor

Practice nonlabor cost stewardship, since every overhead dollar raises what each direct labor dollar must produce.

05 WHERE THE PURSUIT DECISION ENTERS

These economics begin taking shape before a project is won

MODULE 1 · PURSUIT

The Go/No-Go decision

Determines whether a project's client, scope, fee, schedule, and staffing demands can support both successful delivery and our financial goals.

SETS THE ELM

Fee and rates

A fee must clear breakeven at 2.85 to cover direct labor and overhead. An ELM of 3.30 meets the profitability target.

SETS UTILIZATION

Scope and staffing

The work accepted sets the project mix, which disciplines carry it, and whether staff stay productive.

SETS OVERHEAD

Delivery

The efficiency with which the work is delivered, control of indirect labor costs, and the control of nonlabor costs, one of the few variables that determine our firm's financial performance.