



# HEWES & ASSOCIATES

CONSTRUCTION FORECASTS, ANALYSIS & INFORMATION

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## **BUILDING TOP CONSULTANTS 2012 SURVEY SUMMARY**

### **MORE FOR LESS?**

The general message emerging from this year's Top Consultants Survey is: difficult trading conditions continue. The latest survey data reveal marginal fee income growth (of just 0.8%) alongside a near 2% fall in UK employee numbers, and a 0.3% drop in chartered staff numbers. Meanwhile, fees per chartered staff fell by close to 2% in 2011/2012 and fees per UK staff rose by 1%. In general terms, allowing for a margin of error, we can claim a flat situation over the twelve months to mid-2011, although this does not allow for decline associated with firms that have gone out of business.

Viewing the latest data on an historical basis, fee incomes are close to what they were in 2007/2008. This is the case with total fee income and fee income per staff member. For instance back in 2007 average fees per chartered staff were £240,000, the same as in mid-2012. Meanwhile, average fees per UK staff member were by mid-2012 £91,000, the same as in 2007/2008. This situation – of fees the same as in 2007/2008 – is mirrored in construction cost data as released by the ONS. This shows new work construction orders and output costs more or less back to what they were in 2007/2008. As with consultants' fees, decline occurred in the intervening period.

Compared with UK earnings/wages, however, consultants continue to do well. Nationally, average earnings are around 45% above those in 2000 while consultants' fees per staff are almost 55% above those in 2000. It may well be that (as with other professions) fees simply increased too fast in the boom, and they have yet to fully adjust to the new reality, a reality that as painful as it may sound, involves wage and fee reductions.

The situation regarding employment was one of marginal decline over the twelve months to June 2012. The raw data show total UK staff numbers, as noted above, falling only marginally over the twelve months to June 2011. According to our survey data, total UK staff numbers are now close to what they were in 2006/2007, and more importantly, almost 19% below the 2008 peak. Chartered staff numbers are also down from the peak, by an estimated 15%.

While fee incomes have fallen back to 2007/2008 levels, the fall (of close to 22% from the peak), has been steeper than that of employment, and this fact no doubt accounts in some way for the deterioration in margins. In 2007, 5% of firms reported margins of 3% or below. By 2011 this had risen to 15%, and it increased marginally to 16% in 2012. Meanwhile in 2007, 56% of firms reported margins of 8% or above, while by 2012 this had slipped to 42%. Finally, the trend in margins is negative: back in 2007 a balance of 52% of firms reported rising margins. This slipped to 14% in 2008 while by 2009 a balance of 48% reported falling

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margins. While this situation has improved, a balance of 13% of firms reported falling margins in 2012.

Alongside weaker margins, firms complain of working harder for the same or less fee income (a small survey of firms show a majority as delivering more for the same or less income). With demand relatively weak clients are demanding more and consultants are having to deliver. Elements of this include: lengthening procurement; so-called project scope creep (where the initial project brief is expanded upon, but not the fee); changes in proportionality (the time involved in a project is 50% smaller, yet the fee is 60% smaller); the public sector's 'more for less' mantra; a move towards consulting services being procured via contractors. Other aspects include lengthening bidding processes (more meetings etc.), a constant reviewing of fees by clients (always downwards), and an increase in project risk taken on by consultants.

Alongside the above pressures firms have been raising wages. While a balance of 11% of firms reduced wages in 2009, this slipped to 5% in 2010, although in 2011 a balance of 36% of firms increased wages, and in 2012 a balance of 47% raised wages. Back in 2011 a balance of 30% of firms planned to raise wages, but in reality 47% raised wages over the twelve months to mid-2012. To some extent that may relate to improved sentiment back in 2011: in 2010 a balance of 15% of firms expected worsening trading conditions but this improved to a balance of 5% expecting improved conditions in 2011. Since 2011 sentiment has worsened.

Much does, of course, depend upon the strength of demand for construction services, although given the current economic background growth will be hard to come by, with the most likely scenario one of falling workloads to 2014 as public sector work falls sharply and private sector work fails to offset this. Hewes & Associates expects the value of new work construction output to fall in both 2012 and 2013, and to end 2014 some 11% below that in 2010 (*Construction Outlook*, July 2012). While we do not appear to be facing the scale of decline seen in 2009, we do face an environment hampered by both public sector austerity and private sector de-leveraging, the consequences of which are only now sinking in. The main consequence seems to be an absence of economic growth (Hewes & Associates expects no economic growth until 2014) accompanied by little in the way of a political response.

Against the above background, the way forward for consultants has to be via sustaining or gaining market share. Consultants will have to continue to chip away at their cost base in an effort to protect margins. For some this will prove unsustainable while clients continue to demand more for less – unless consultants cut costs and fees. For others merging with another firm will prove the best way forward (as this will lower property costs etc.). However, some firms do note that there has been a noticeable increase in competition from those smaller firms which have a lower cost base and it will be interesting to see how this progresses.

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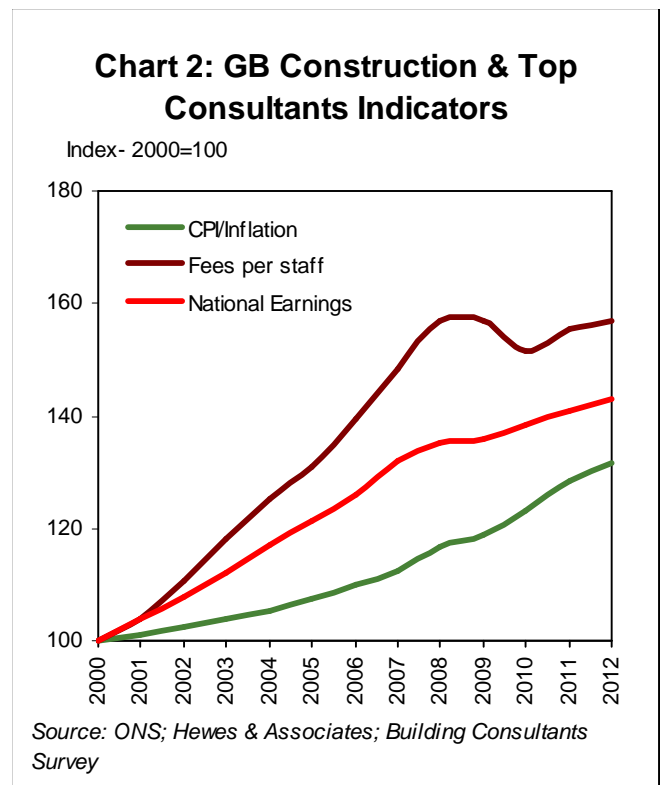
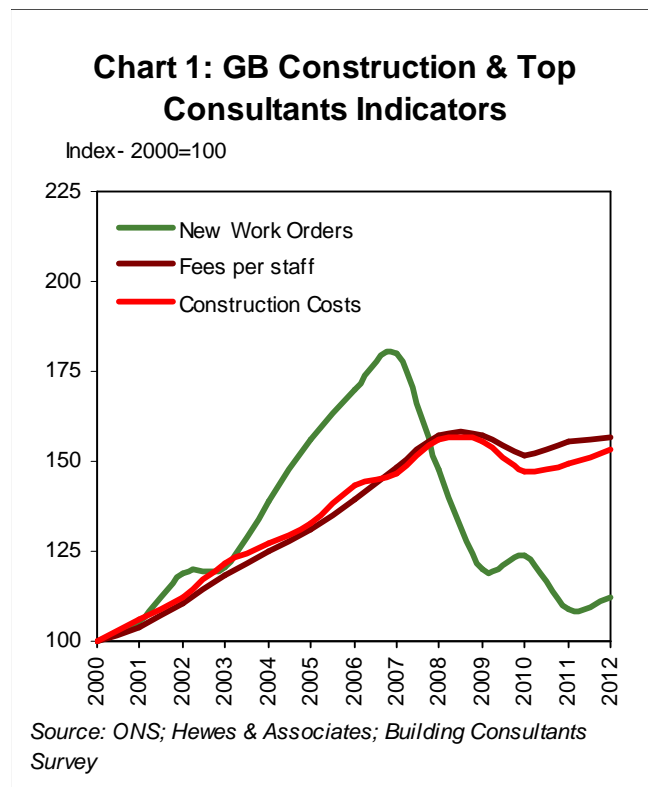
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To finish on a more positive note, the gloomy situation facing construction and consultants assumes unchanged economic policy. Were the economic situation to deteriorate further, construction would benefit should the Government decide to change approach and 'pump prime' the economy via bold construction related investment (that is, beyond the simple tinkering we have seen over the past year). Such a move would generate employment (a clear barometer of economic success) and if managed properly, an asset base that facilitates economic growth – something the boom clearly failed to deliver.

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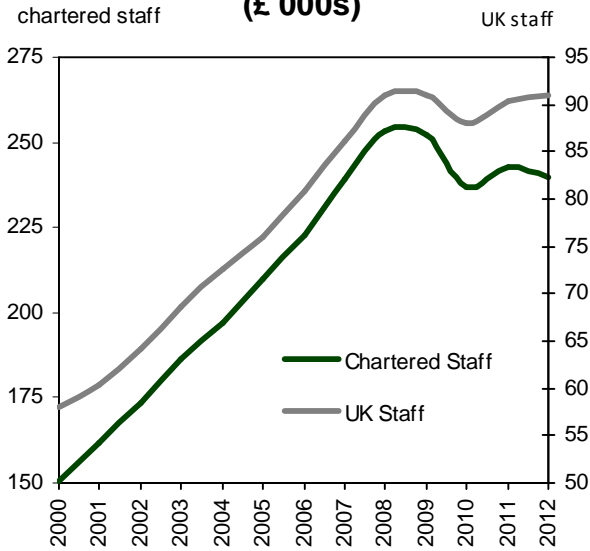
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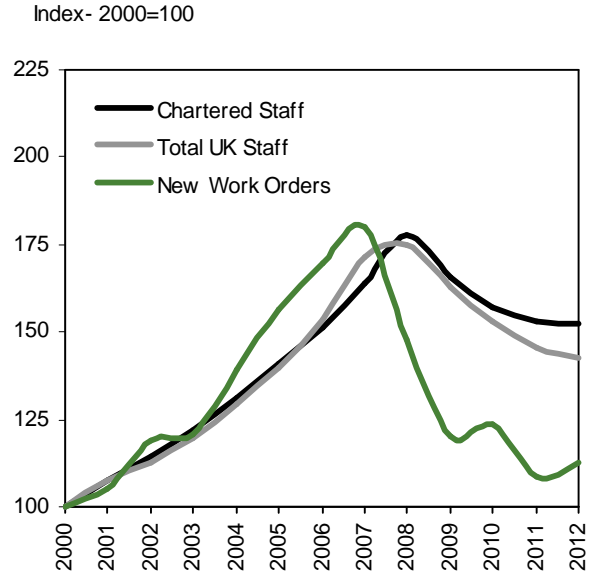
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**Chart 3: GB Construction Consultants: Fees Per Staff (£ 000s)**



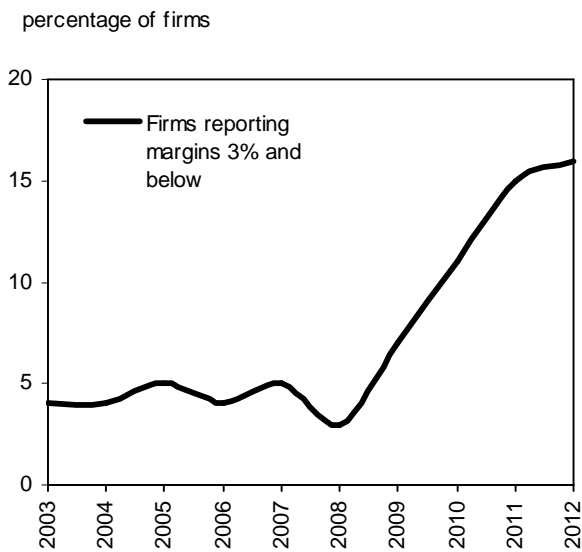
Source: ONS; Hewes & Associates; Building Consultants Survey

**Chart 4: GB Construction & Top Consultants Indicators**



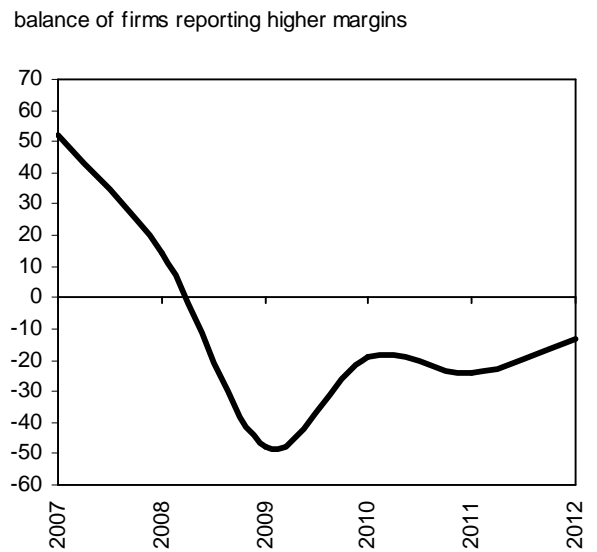
Source: ONS; Hewes & Associates; Building Consultants Survey

**Chart 5: Consultants' Margins**



Source: Hewes & Associates; Building Consultants Survey

**Chart 6: Consultants' Margins**



Source: Hewes & Associates; Consultants Survey

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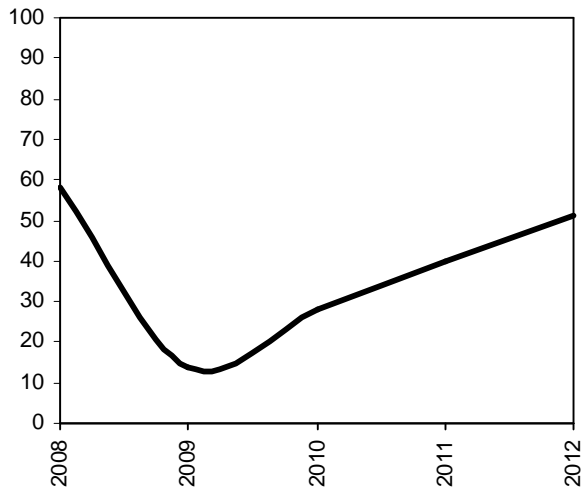


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**Chart 7:  
Consultants' Employment  
Expectations**

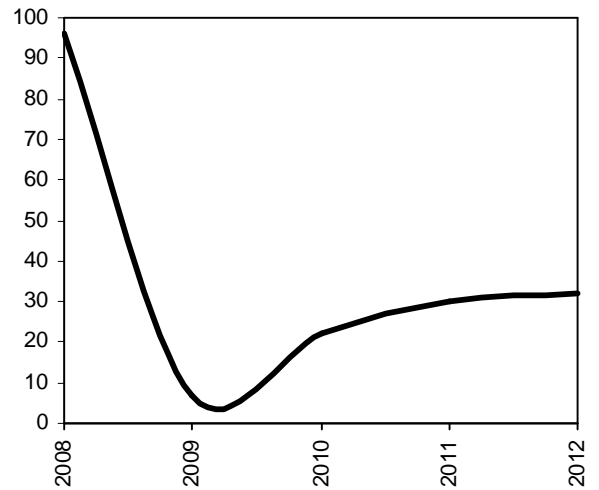
balance of firms planning to increase employment



Source: Hewes & Associates; Building Consultants Survey

**Chart 8: Consultants' Wage  
Expectations**

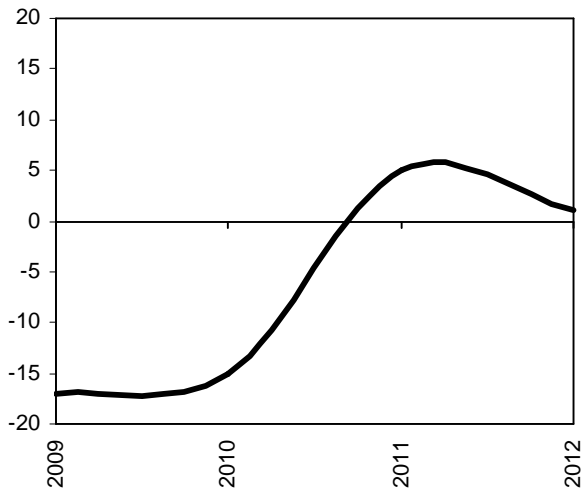
balance of firms planning to increase wages



Source: Hewes & Associates; Building Consultants Survey

**Chart 9: Consultants' Trading  
Expectations**

balance of firms expecting improved trading conditions



Source: Hewes & Associates; Building Consultants Survey

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