TOP STEP

Metrics, Measures, and Motivation

Equations for Professional Services Success

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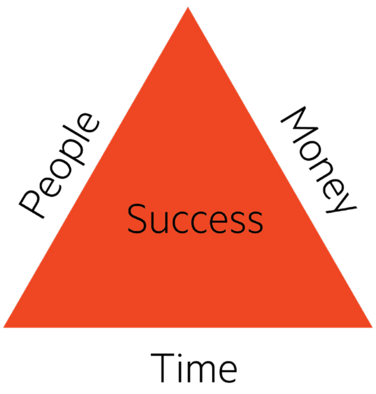
Metrics, Measures, and Motivation: Equations for Professional Services Success

Overview

Like many types of businesses, Professional Services rely on people and processes to be successful. Metrics are often established to view trends and set objectives, allowing PS management to keep a finger on the pulse of the organization. Measures taken at defined times determine achievement of objectives. If those objectives are not being met, measures provide motivation to take correction action, ideally early enough to keep the organization on a path to success and growth.

Numerous metrics exist to measure Professional Services organizations. Many metrics are the focus of benchmark studies that establish industry trends and guidelines for management. We at Top Step have gathered the triangle of measures that we feel best capture the key angles for any Professional Services business: People, Money and Time.



People: The '-zations' and '-ilities' metrics

Utilization is one of the most recognized measures for professional services because it is a direct measure of both people and time. Utilization measures hours recorded on timesheets against available hours for service delivery. By tagging hours by type, the utilization measure can be expressed in a variety of ways for a broader interpretation of data. Billable utilization vs. non-billable utilization is a basic split with billable utilization often being a driver for individual bonus compensation. Credited utilization is a further refinement identifying hours that are a direct benefit to the organization to grow the business such as supporting sales or developing new deliverables. Breaking non-billable hours down by type such as travel, administration, vacation, and so forth gives insight into ways to minimize non-billable time, which may maximize billable utilization.

Equation: Timesheet Hours / Available Hours

Factors: Company holidays, vacation, time tagging by type

Realization factors money into the utilization picture by considering revenue earned vs. optimal revenue earning based on list price rates. For this metric, you'll need to track revenue earned per user along with hours spent to compute a percentage metric of actual vs. optimal revenue.

Equation: Revenue earned / (Timesheet hours * target bill rate)

Factors: non-billable time associated to projects, revenue split for fixed fee engagements

Productivity is more of an individual metric that helps managers identifies the ratio of work to achieve billable utilization metrics. By computing the ratio of billable work vs. total hours worked, you can quickly see not only where users spend their time but also what it takes for them to achieve targets you've defined in the organization. Keeping an eye on both utilization and productivity will provide insight into opportunities to assist individuals to delegate or eliminate non-billable work and achieve a better work/life balance potentially.

Utilization is one of the most recognized measures for professional services because it is a direct measure of both people and time

Equation: Billable Hours / timesheet hours

Factors: time tagging by type

Demand and Capacity is the classic economics problem – what do I need vs. what do I have. You can measure demand and capacity by headcount or money - both are valid versions of this metric. Headcount focuses more on staffing while money focuses on the combination of list prices and staffing. Capacity by headcount can be simply billable employees on staff and defined working hours available for services delivery, however a more accurate measure is considering productive time or target utilization; let's call this target capacity. By applying a target or standard list price to headcount available hours, you can compute target capacity in money. The Demand side when considering only the headcount aspect requires a resource scheduling/planning methodology that may factor in pipeline from sales as well as backlog of work already sold and signed. Converting this to money simply requires the forecast of sales and backlog burn for comparison. Demand vs. Capacity reports and measures are an important leading indicator of staffing needs, which may require new hires or onboarding of contractors to fulfill anticipated demand.

Equation (Capacity): (Available working hours * Target Billable %) * Target Bill Rate

Equation (Demand): Forecasted hours * Proposed Bill Rate

Factors: resource type or skill category, company holidays and vacation, bill rate trending and discounts

"Show me the money" measures

Profitability seems like a straightforward measure – how much profit in dollars or percentage did the business, department, or engagement achieved based on cost to deliver services. Cost tracking is the challenge that makes this measure interesting. True profitability needs to consider salary cost vs. hourly cost meaning a resource working 50 hours in a 40 hour work week still only costs the company the equivalent of a 40 hour work week. Cost adjustments are necessary if measuring hours at the project level to consider this work overage. Without cost adjustments, profitability reflects what the project would have reached if unpaid overtime was not factored in. This metric provide better planning insight when considering future project scoping estimates.

Equation: (Revenue – Cost) / Revenue

Factors: labor cost adjustments, pass thru costs, revenue by business line or category

Forecasting provides an estimated outlook of work to deliver in the future. This metric tends to be heavily reliant on resource scheduling and anticipated resource needs in addition to expected pricing negotiations such as bill rate. With a dependency on resource scheduling for labor, forecasting can be more than simply revenue forecasting. It can also be a projection of resource needs in hours, perhaps even broken down by labor category or skill type. This metric is useful for both staffing adjustments as well as scheduling work within the company's capacity.

Equation: Scheduled hours * proposed bill rate (or simple spread across a timeline)

Factors: scheduling accuracy, pricing discounts

The health of an organization can be measured or monitored by reviewing both the sales pipeline and signed backlog. The sales pipeline metric involves considering the potential for an opportunity to close along with the value of that opportunity. By using weighted forecast values by deal and a measurable bid-to-win ratio metric, a pipeline of 2X or 3X revenue plan may suffice to ensure a healthy outlook of new business to sustain the organization. Backlog means work already agreed upon with customers and scheduled to be or actively being delivered. A healthy backlog is one that is being delivered on a timely basis once agreements are in place with customers. It's not enough to show the amount of work in backlog; you have to add an aging metrics. The longer signed customer work sits and is not scheduled for delivery, the higher the risk of the customer canceling or no longer needing the work and, thus, the value of the backlog not reflecting realistic work.

Equation (Pipeline): Forecasted opportunity value * probability weighting

Equation (Backlog): Total engagement value - delivered service to date

Factors: Backlog date, timeline for delivery, probability accuracy

Average Bill Rate is a trending metric that provides valuable insight into how discounts are impacting the organization and also how well fixed-fee engagements are managed. Bill rate metrics factor into a number of areas within a PS organization including scoping/pricing templates, capacity projections to support revenue targets, opportunity lost measures, and project management controls.

Equation: Revenue from labor / Delivered hours

Factors: contract type (fixed fee vs. T&M), non-billable hours

A stitch in time saves...

PS success measures often rely on predictability and customers want assurances that their engagements are predictable. One key metric for PS that connects customer expectations with engagement management is the on-time delivery metric. This metric measures the percentage of projects delivered on time according to the initial project plan and/or agreement with the customer on milestone dates. You need to define key events to drive the metric such as project kickoff or go-live and identify thresholds to capture levels of on-time delivery. For example, 90% on time delivery may mean 90% of projects are delivered on-time or within a 2-3 day threshold of delivery or 5% duration threshold of delivery depending on the full timeline of the project.

Equation: (Actual event date – Target event date) / total # of projects

Factors: event identification, defined timeline

Scheduling accuracy is a metric that serves two main purposes in a PS organization: 1) ensuring forecast accuracy can be relied upon since resource scheduling is such an important factor in forecasting and 2) ensuring resource scheduling is maintained with checks and balances in place to prevent resource hoarding or unrealistic workloads for key individuals. By reporting on actual hours vs. scheduled hours, a metric of 90-110% shows a high level of confidence in how the organization schedules resources and supports accurate revenue forecasting as a result.

Equation: Planned hours / Actual hours

Factors: non-billable hours, time period measures for trending

As an operational measure, Timesheet Compliance, is a factor into how accurate other metrics may be, such as scheduling accuracy, backlog aging, and forecasting. Every PS organization should strive for 100% timesheet compliance by team members to ensure accurate time reporting, timely financial processing, and confirmation of project plans by Project Managers.

Equation: # of timesheets submitted / # of users required to enter time

Factors: contractors vs. employees, clear deadlines and policies, project availability for time entry

The days sales outstanding (DSO) metric is about the health of cash flow from collection. A low DSO shows confidence from your customers with your team and confirms your forecasts are reliable as well as it relates to cash flow. A high DSO may be an indicator of issues within your organization related to project delivery, accounting practices, or customer satisfaction.

Equation: Payment date – Invoice date

Factors: payment terms, invoice delivery method (electronic, mail, etc.)

The bid-to-win ratio metric is a factor in how large of a sales pipeline should exist to meet revenue plan. The bid-to-win ratio is simply a measure of the number of proposals or scoped delivery work that convert to signed and agreed upon engagements for services. A high bid-to-win ratio means your pipeline factor can be similar or slightly higher than your delivery capacity – 1X or 2X your revenue plan for a quarter, for example. A low bid-to-win ratio means your sales team needs to identify a high number of opportunities in order to ensure your closure rate supports your revenue plan – such as 3X to 4X if your ratio is more like 20-30%.

Equation: # of closed deals / # of proposed deals

Factors: definition of closed deal and proposed deal, sales methodology

"Push me – pull you" of the triangle

Many metrics are dependent on or derived from other metrics. One thing they have in common is three contributing factors: People, Money, and Time. These three factors form a triangle where any one given element may impact the other two – thus creating a push me-pull you type of situation.

As you establish metrics and measures for your organization, you'll need to also define what a 'good' result is for your business. Industry measures exist to provide guidance on interpreting your data. It is best to find benchmark study results from organizations that focus on your specific professional services industry. Examples include PS within SaaS companies, PS within Software companies, Consulting Services firms, Media and Creative Agencies, and more. Although each professional services organization requires the same basic elements of people, money, and time, the measures needed to ensure a healthy business may differ in value slightly simply due to the overall company objectives and goals. Software companies may have a heavier emphasis on product sales and use the PS organization as product enablement whereas pure consulting firms need to focus on utilization for company health.

Ensure you establish and trend metrics that cover a gambit of the three-factor triangle to achieve as much of a 360-degree view of your organization as possible. When you take your first measure, you may be surprised as how positive or how negative the organizational health is – either way the action to measure is itself a positive activity. It confirms your approach to running the organization is sound or provides immediate visibility to where improvements are needed. Turning a negative measure into a positive measure is, in its own right, worth the effort to establish metrics!

The bottom line...

Metrics and measures are a way to confirm the path of the organization is healthy. Simply measuring revenue earned and income statement profitability as a company does not ensure sustainability. The more you can see within the organization, the more quickly you can act to adjust the triangle of factors and keep the business moving forward with growth and profitability.

Leverage industry benchmark studies to compare your measures with like businesses, especially as you start out your measures. Over time, you'll have your own trending data to do internal comparison of health and scalability.

Consider implementing a Professional Services Automation (PSA) solution to help track, gather, and produce metrics in a more automated and real-time way so you have your 360-degree view at your fingertips. It's never too soon to establish metrics and measure to motivate your team to success!