The Five Most Critical Project Metrics

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INTRODUCTION

The Illusion of Success
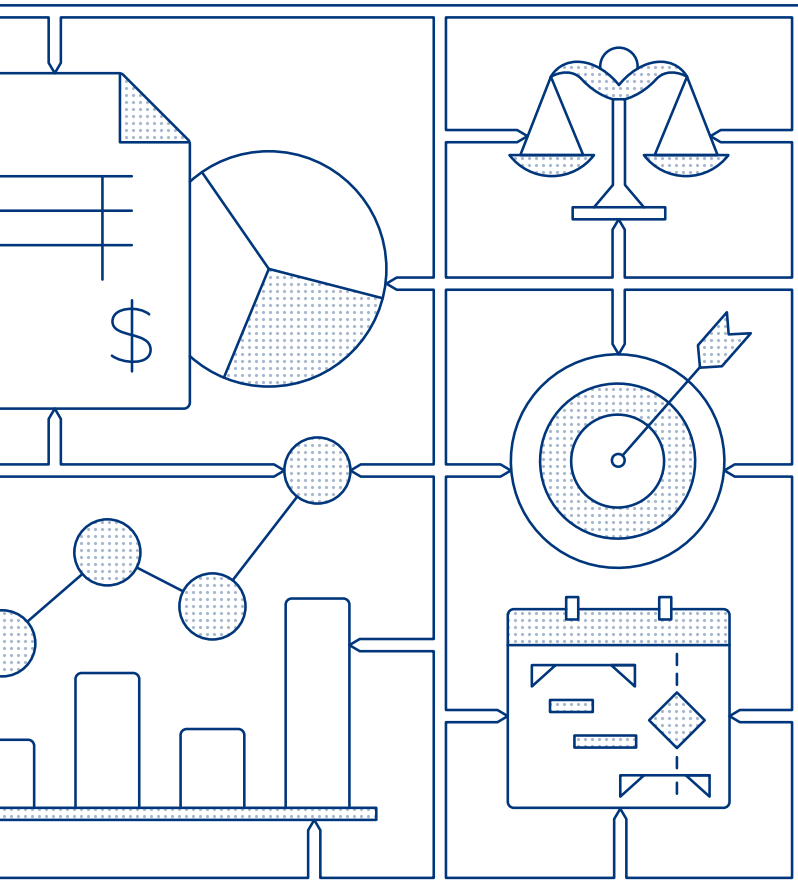
The phenomenon of chasing growth at the expense of profit margin can happen in any business, but this is nowhere more true than in a professional or creatives services business. In helping hundreds of companies become higher performers, we've seen this particular struggle over and over again. And it is unnecessary.

So, why does it happen?

Creative and professional services, or organizations that deliver fee-based work to clients, are incredibly complex to manage, especially through growth. There are many dynamics to these businesses that change daily. Exacerbating the challenge is that most are operating from a host of disparate systems, so key data points about their people, projects, and financial performance live in silos, and must be brought together at some frequency to gain insight into the levers and measures that impact the business.

SERVICES BUSINESSES ENCOUNTER THREE COMMON CHALLENGES AS A RESULT:

CHALLENGE ONE

Difficulty forecasting revenue.

In the past, clients would sign contracts for long-term, assured engagements, sometimes lasting years, making revenue forecasts somewhat easy. Today, projects are much shorter term, and rapid. Clients evaluate budgets and project success metrics much more frequently, creating more uncertainty for providers. These realities have made it much more difficult for services providers to accurately forecast future revenue.

CHALLENGE TWO

Uncertainty in resource planning against demand.

Services businesses need to be extremely agile in allocating the right resources in the right places to maximize profitability. Too many people on the bench can drive down profit margins, and having too few people available limits what can be taken on. And, keeping track of the utilization of dozens, hundreds, and sometimes thousands of resources, in real-time, is daunting.

CHALLENGE THREE

Lack of real-time visibility into project profitability.

There is very little room for error when making decisions in real-time during the project lifecycle. Miscommunication and scope creep can reduce your profit margins before you realize what even happened. Waiting a month for a profitability report from your finance team can be devastating to your margins. This lack of real-time visibility could be enhanced with the proper success metrics.

Services firms have a profound need for business intelligence (BI) to make sense of vast information in order to make profitable decisions. Without this clarity, success is just an illusion. Yes, you've been busy. Yes, you've served clients. But you could be less busy and serve more clients — and be more profitable.

So how do you move from busy to breakthroughs?

The following ebook will discuss the five most critical metrics that every services business needs to have readily available, and how to calculate them, so you can turn your data into decisions. The five most critical metrics can be understood as: Project Margin, Planned and Actual Utilization Rates, Billable Performance to Target, Total Availability by Month, and finally, Supply vs. Demand.

The five most critical metrics can be understood as:

1. **Project Margin**

2. **Planned and Actual Utilization Rates**

3. **Billable Performance to Target**

4. **Total Availability by Month**

5. **Supply vs. Demand**

IN THE NEXT SECTION

We will discuss one of the most critical metrics for any business with billable workers — project margin at completion.

Project Margin

It's insufficient to know the profitability of your department, practice area, or office. The best run services companies manage every project as a distinct Profit and Loss statement (P&L). P&Ls provide details about a project's revenues, costs and expenses, revealing the ability of each project to generate profit for the company. When you have this level of insight into every single project, you can predict outcomes that will positively impact your business. For example, you can see what projects regularly meet or exceed margin targets, as well as which ones are routinely unprofitable.

One truth in client services is that your project scope will change during execution. It's relatively easy to plan to deliver great margins, it's much more difficult to manage this inevitable change in a way that allows you to remain profitable, as you had planned, at completion.

To understand project margins, you will need to track the current cost of the project and then add in any scheduled cost in the future to get a predictive Estimate at Complete (EAC) margin percentage.

With this information you can view the P&L of a specific project, then roll projects by any dimension to discover trends.

Decisions to be made:

This metric is critical to help you stay on top of project margins while there's still time to make adjustments to hit your margin targets. With insights into project margin at completion, You will be able to determine if moving resources around or modifying project scope would allow you to increase margins at completion.

Information Required:

- **Fixed Fee Revenue + Time & Materials Revenue:** The financials set aside for project delivery.

- **Non-Billable Expense:** When a resource is doing work that cannot be billed to a client (i.e. administrative duties).

- **Resource cost rate x hours logged:** Cost of given resource x hours worked.
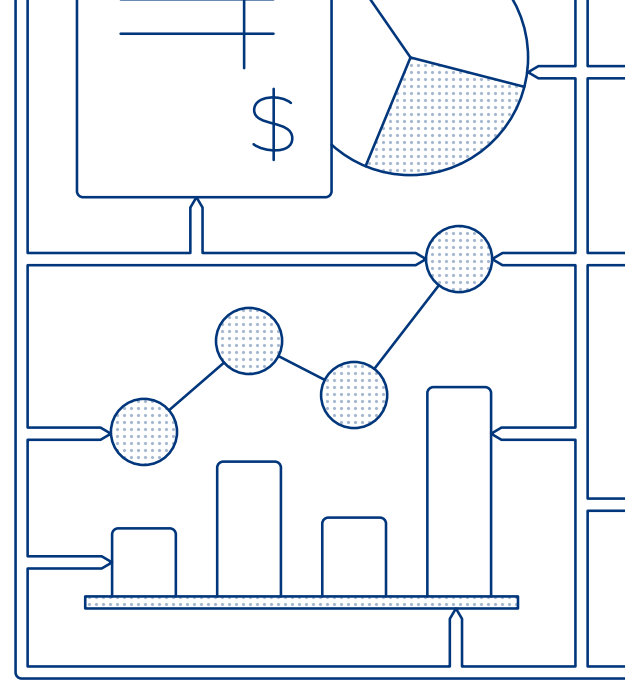
A LOOK INSIDE

Here is an example of a Mavenlink Insights report calculating Project Margins at Completion. For this Fixed Fee project for ABC Healthcare, it appears from cost accumulated to date as well as projected costs for scheduled resources going forward, that the project will end up with $174,100 of cost versus the $400,000 budget we will be invoicing the client. The result is a projected Estimate-at-Completion Margin of 56.5%.
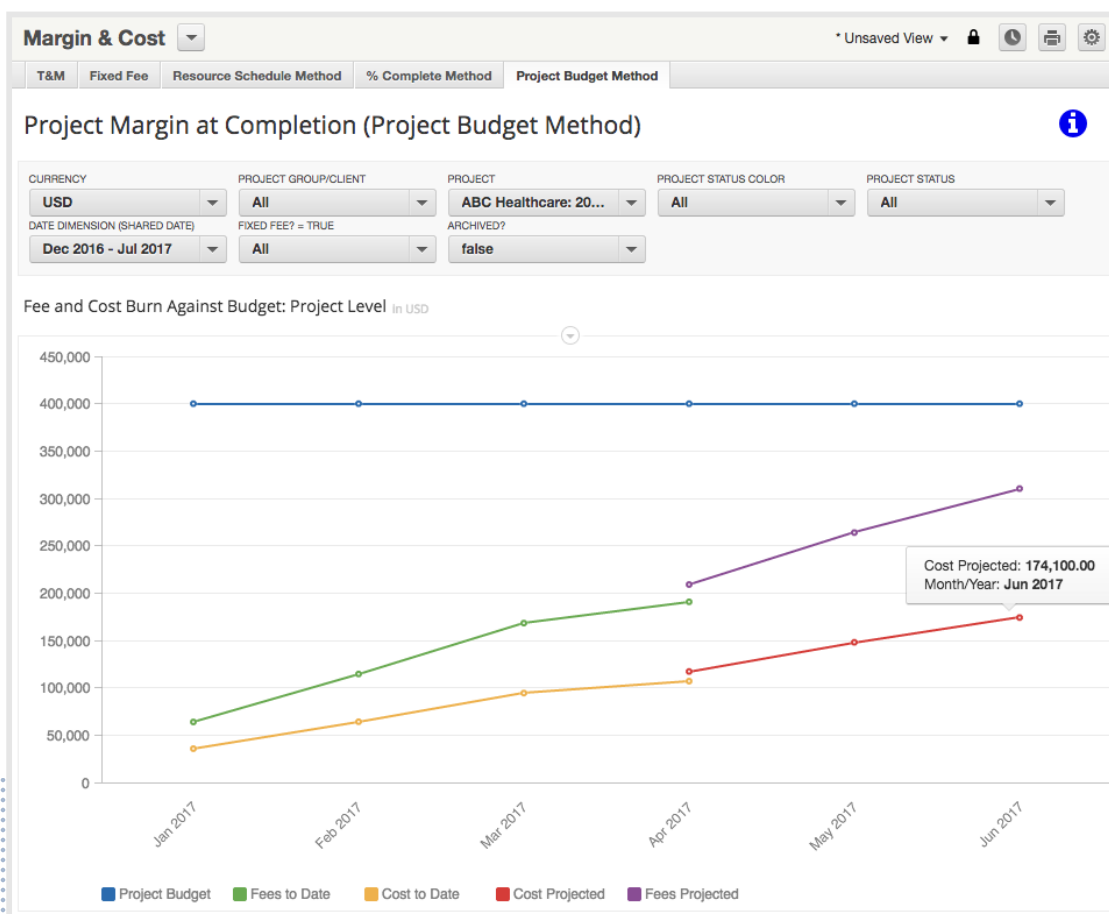
Planned and Actual Utilization Percentage

Project profit is only one part of the story. Companies can have profitable projects, and yet still lose money. This is typically from having too few employees working on revenue-creating projects. This can stem from over-hiring, poor resource staffing, low productivity, or a host of other people management shortfalls. This leads to what we refer to as "margin leakage."

You can mitigate this is by managing planned and actual utilization rates. Planned utilization measures the time your resources spend working that can be billed to a client. Actual utilization, then, is a view into how much work a particular resource has scheduled, both in the past and future. What's important about this specific report is that it highlights the relationship between an individual's actuals and scheduled hours compared to predefined organization and personal targets that are necessary to achieve to improve or meet overall company profitability goals.

This metric is helpful for you to know where you land month-over-month — are resources hitting scheduled targets, and if not, you can dig into what happened. You can also use this data in aggregate to see where improvements need to be made, for example you are running at 62% utilization, but target is at 65%, so you are 3% under. It is typically leveraged to assess the utilization of a specific person, month, or practice area, and you should have various filters so you can drill down where needed.

Decisions to be made:

If there is no variance between actuals and scheduled, you are properly scheduling resources across projects and each person is at maximum utilization. When you discover a variance, you should move resources around to maximize time spent on billable work. If you are consistently seeing actuals over scheduled, it means you are not properly scoping projects. Furthermore, viewing utilization performance on a month-over-month basis should be used to make hiring, staffing, and overall personnel usage decisions.

Information Required:

- **Billable Actual Hours:** Billable hours logged up to the day of reporting.

- **Scheduled Billable Hours:** Hours that a resource has been scheduled in the past, present, and future.

- **Utilization Targets:** User-specific goals set by the organization for maximum financial gain.

- **Resource Work Weeks:** Actual billable potential for a resource based on their work week (ie: 10 versus 50 hours).
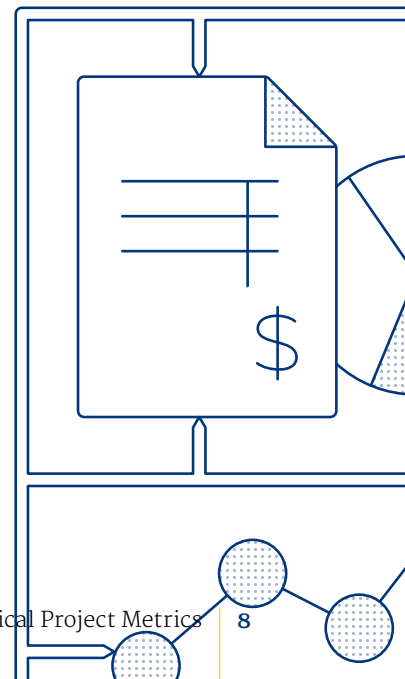
A LOOK INSIDE

Here is an example of a Mavenlink Insights report that calculates Actual Billable Utilization versus Scheduled Billable Utilization. While we clearly had a fall-off in Billable Utilization during the holidays, it appears we've exceeded our Targets for January through March, though our Actual Billable time also exceeded what we'd Scheduled. Going forward, it appears May and June Scheduled Utilization is under target, or Project and Resource Managers have yet to update Project Resource Schedules. Perhaps, recently sold work is yet to be scheduled out to it's fullest.
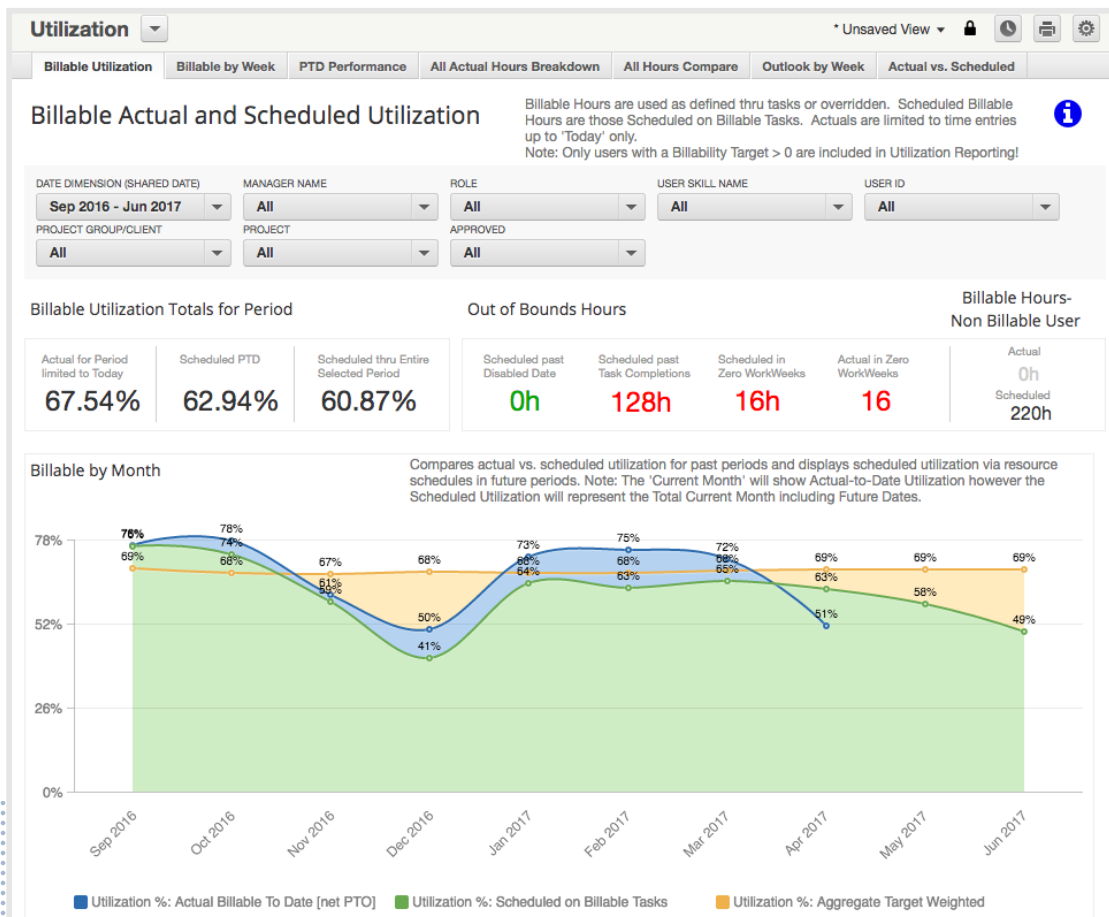
IN THE NEXT SECTION

We will introduce a second report that provides a more cumulative view of billable hours and how the team is tracking against targets on an annual basis.

Billable Performance to Target

While utilization percentages are a key management metric, from a group or employee performance standpoint, the top performing companies watch individuals' billable performance to target. Typically assessed on an annual or semi-annual basis, it's important to watch trends from actual time spent on revenue producing projects, combined with the cumulative projection of future scheduled time on the same. As a result, you can see whether the person or group is likely to achieve their end-of-period goals.
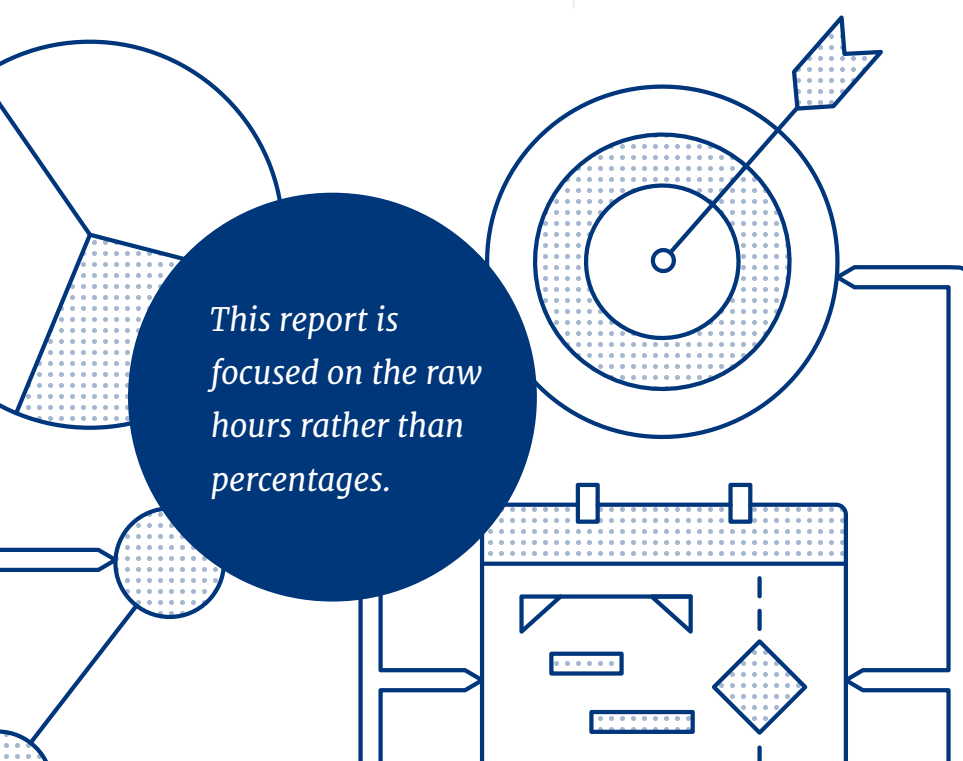
To see if your resources are on pace to achieve their target billable hours for a given time period, you need metrics that display actual and scheduled billable hours relative to target billable hours. As opposed to the billable utilization report mentioned previously, this report is focused on the raw hours rather than percentages. With this report, you also have a view into the future to see if resources are on track to hit their targets or if they are falling behind, and can make key decisions to correct issues.

Decisions to be made:

If the reporting indicates that an individual is not on track to hit targets, the types of questions to ask include: 1) Are they accurately tracking their time (impacting their projected time), 2) Does this person have demand for their work, 3) Are they working on enough revenue generating work versus promotional projects, and 4) Is there need for counseling on work performance.

Information Required:

- **Billable Actual Hours:** Billable hours logged up to the day of reporting.

- **Scheduled Billable Hours:** Hours scheduled to a resource (past, present, future).

- **Target Hours:** The percentage of time that a resource is expected to be billable.

- **Resource Work Weeks:** Actual billable potential for a resource based on their work week (ie: 10 versus 50 hours).

This report is focused on the raw hours rather than percentages.
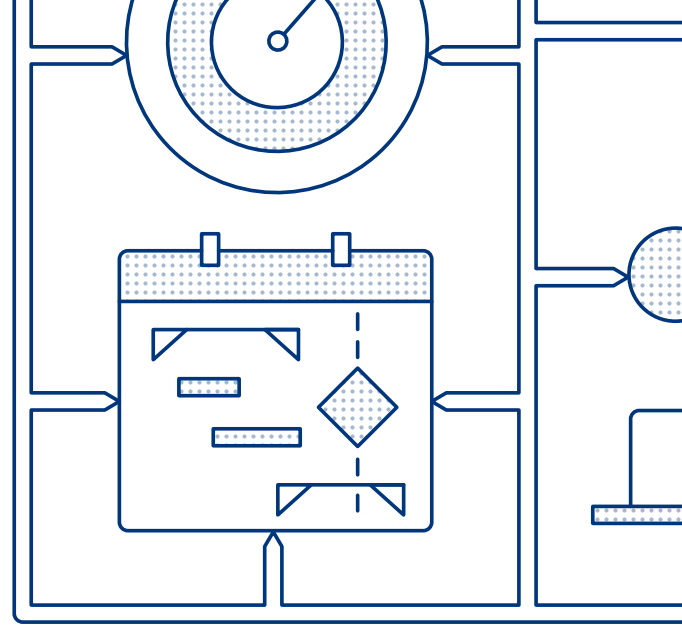
A LOOK INSIDE

In this example Mavenlink Insights report, we are assessing Kevin's potential to meet his annual Billable Target of hours. It appears his Actual Billable Performance started slowly and was under target. That has picked up in recent months, and combined with Kevin's project schedules over the next 2 months, it appears Kevin will exceed his annual target of 1,016 Billable Hours by 120 at end of fiscal year.
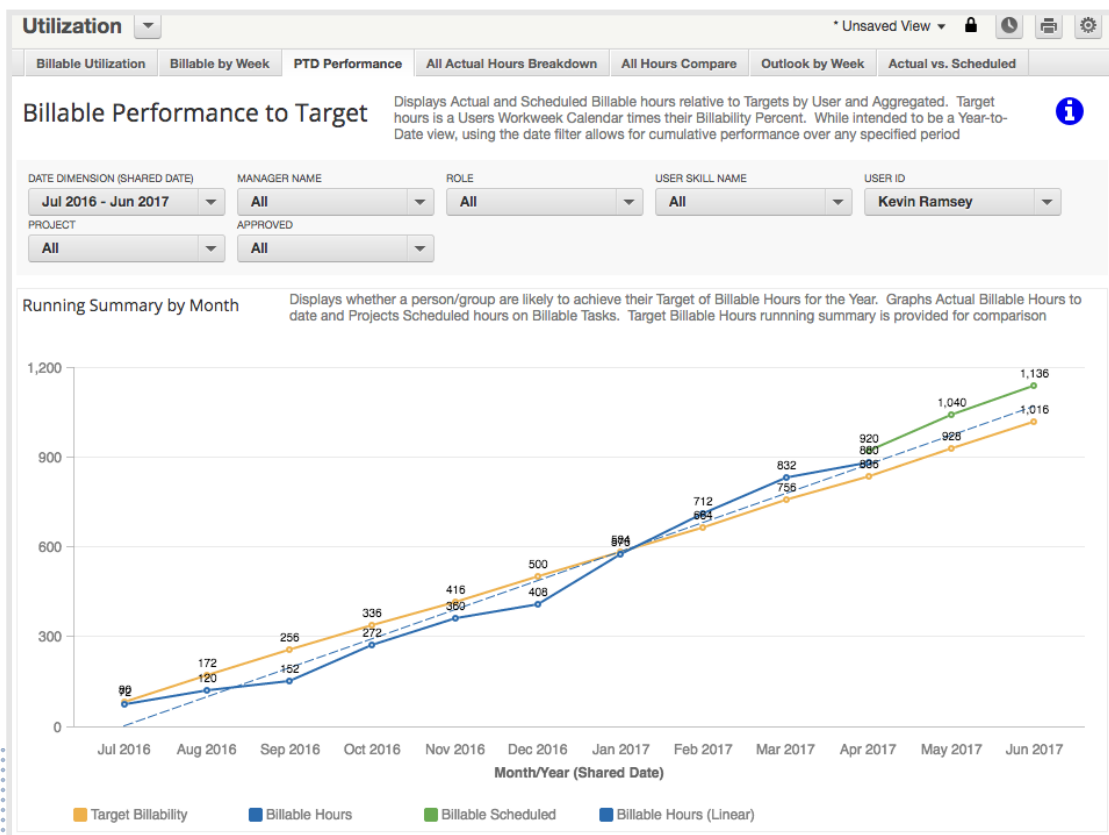
Total Availability by Month

In services, there is a constant struggle to manage supply vs demand. A few questions to consider: Do you have the number of resources required to complete your work, and for those organizations looking to grow and scale the business, can you successfully handle taking on more work? Thus, another key metric your services business needs highlights availability against project demand.

To understand remaining availability, calculate billable planned, estimated, and scheduled hours against total capacity. It is imperative to have visibility into both planned and scheduled availability to have an accurate forecast of who is actually free to take on work. In this case, scheduled time is assumed as hard allocated (locked in and unlikely to change), and planned time is assumed as soft allocated (original plan and possible to change). Availability of resources is a fluid and imprecise metric, so through the analysis of both hard allocated resources and soft allocated resources, you can see the potential availability versus the truly unavailable people.
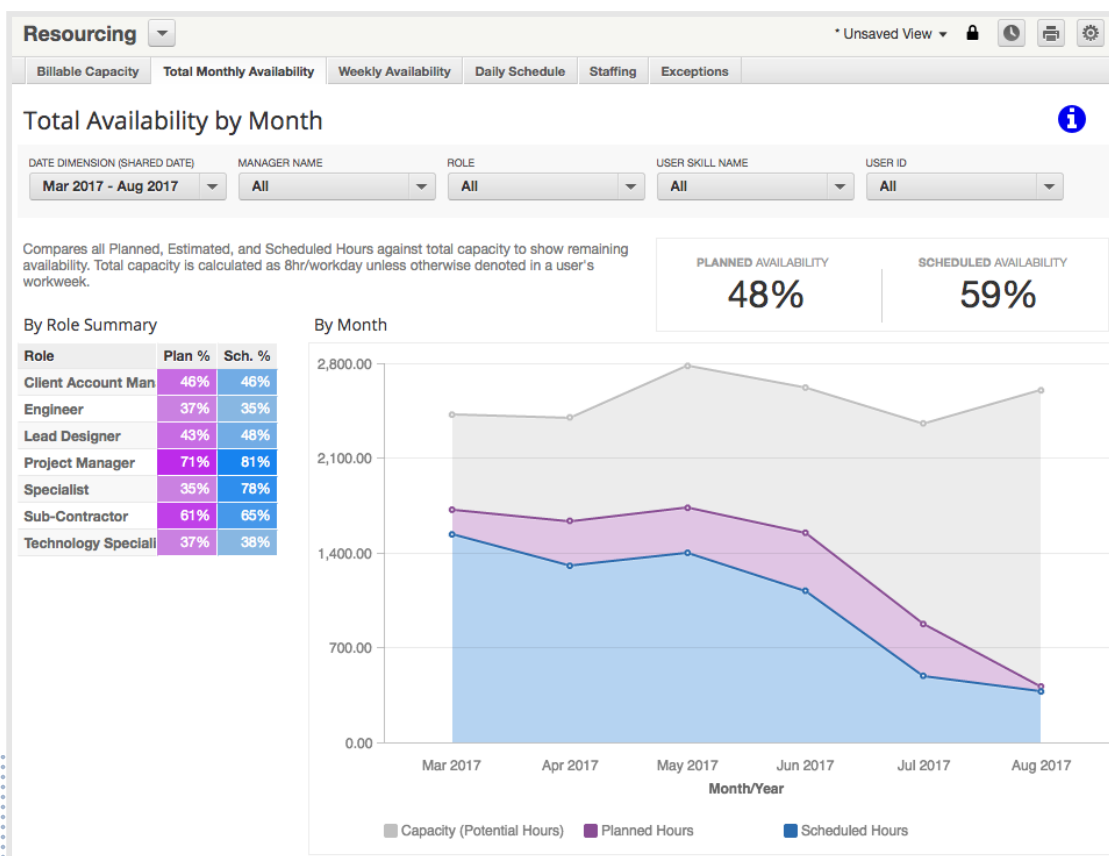
Decisions to be made:

This information will help you understand if you have enough resources to take on new work. If a certain role, skill, or resource is constantly not available, consider hiring new individuals. If a certain role, skill, or resource is consistently available, make swift moves to assign them to billable work, or restructure the team.

Information Required:

- **Total Monthly Availability:** Available hours for a given resource over a month's period.

- **Planned Availability:** When a resource is unofficially put on a task, project, or client, the details are likely to change, and the resource will likely be shifted until the project scope is finalized.

- **Scheduled Availability:** When a resource is officially put on a task, project, or client, the details are set in stone and the project is ready to be started. These resources are officially unavailable for any other work.

A LOOK INSIDE

In this example Mavenlink Insights report we are looking at resource availability for the duration of March through August. It appears the organization has an aggregate availability (or capacity left to use) of between 48% and 59%, depending how much of the Planned Resources needed are converted into Project Resource Schedules (Hard). Specifically, if we are looking for Engineers, the availability is around the mid 30's%, and we will want to drill into detail to see who's available.

Supply vs. Demand

One of the greatest sources of profit loss at services companies is failing to recognize when resources are available to work. If the amount of hours on a project is left unassigned, you will lose money until you fill staffing gaps. You need a dashboard for your business that helps you understand what is needed to complete a project, and what resources can finish it.

This supply and demand metric should display planned and scheduled availability versus remaining hours needed per projects. With this view, you will get a breakdown of available resources and new or active projects, as well as the project's estimated versus planned and scheduled hours to date. It is intended to be used by Resource Managers and other roles responsible for staffing projects, and shows what projects still require billable hours for completion so they can proactively move around resources to meet shifting demand. This is critical for forward-thinking companies as it allows teams to plan ahead for resource demand and properly forecast required resource needs.

Decisions to be made:

This report is all about efficient staffing to improve utilization and successful project delivery. With this information you can determine what is needed to finish a project, and who you can use to finish it.

Information Required:

- **Planned Hours:** When a resource is officially assigned to a task, also referred to as hard allocation.

- **Scheduled Hours:** When a resource is placed on a task but can still be moved around. Also referred to as soft allocation.

- **Task Estimated Hours:** The estimated hours required to complete the given task with given resources.
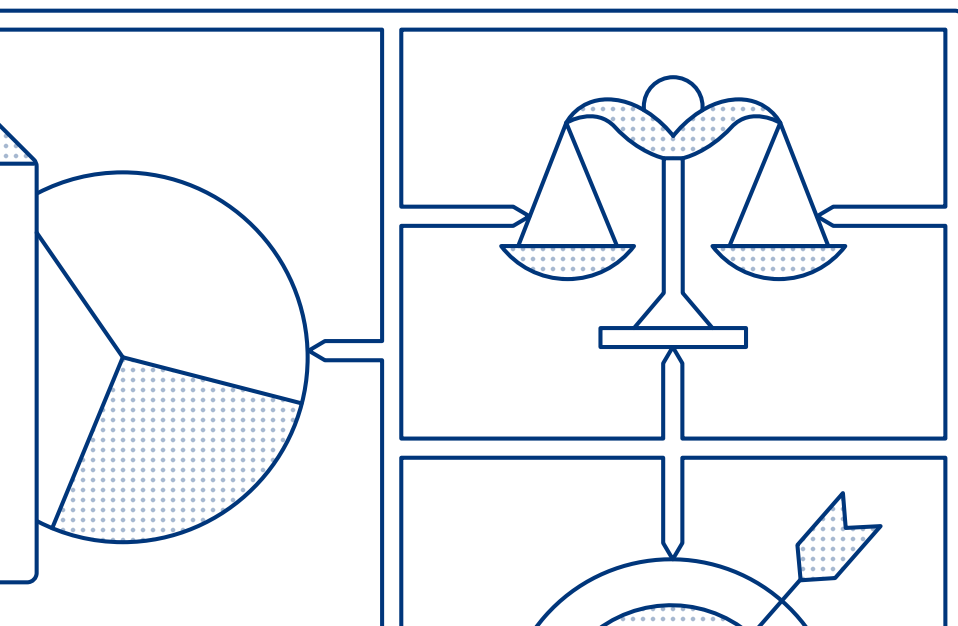
A LOOK INSIDE

Here is an example of a Mavenlink Insights report calculating Total Availability. There are several projects with Remaining Estimated Hours that have either yet to be assigned a resource, or remain 'under-assigned' with resources in order to get the estimated work done. We can now look to the Planned Availability to see who might have capacity to fulfill those needs.

Turn Data into Decisions

As the Service Level Economy continues to drive more demand for the services sector, it has become imperative for organizations to invest in a robust BI tool. Real time reporting allows you to keep a finger on the pulse of the business through real intelligence, enabling services firms to make swifter, more informed decisions when reaching for goals. No longer are you stuck with the news of a failed project after it has been closed. Instead, allow your reporting tool to feed you the data necessary to react to project or resource changes as they arise. This way, you are making shifts to impact profitability in real time. With proper business intelligence, no longer do services teams meet goals, they actually exceed them.

Allow your reporting tool to feed you the data necessary to react to project or resource changes as they arise.

Final Tips to Get the Most Value From Your Metrics:

- **Make sure your data and BI is as close to real-time as possible.** If you need to wait until the end of month billing cycle to review key metrics, it is too late. You need access to the information at a point when you can make swift decisions.

- **Make metrics easy to understand a first glance.** For example, color coding in graphics allows managers to quickly get a pulse — green indicates everything is on track, whereas might indicate it is at risk.

- **Make the data and reports available to any individuals who took part in the project.** Individuals should have access to their utilization reports, for example. Empower them with the information they need to affect their performance.

- **If you spend all of your time gathering the data, then you aren't spending enough time analyzing it.** You need to have a BI tool that can get you the information you need as opposed to having to manually export information into spreadsheets.

Mavenlink Insights

ENTERPRISE-GRADE BUSINESS INTELLIGENCE

Mavenlink Insights is enterprise-grade BI that puts comprehensive, real-time project analytics within reach so you can get the information you need to get the results you want. Designed by a team of professional services experts, with Insights you can gain control over margins, improve resource utilization, and better forecast revenue and costs.

Benefits of Mavenlink:

- Get the visibility you need to make swift, informed decisions with interactive business intelligence reports and a powerful custom reporting engine.
- Quickly answer complex business questions that were previously impossible (or very labor intensive) to resolve.
- Get the information you need to make informed decisions about your people, projects, and profits.
- Take action where and when it's needed to improve the profitability of your business.

Key Features

- 40 expert-built reports automatically answer key questions — and predict future outcomes — impacting profitability, utilization, and project success.
- Tailor Insights to answer your most unique and complex business issues with an interactive ad hoc reporting engine.
- Clone and modify existing reports, or build your own from scratch.

Get your free demo at www.Mavenlink.com.

"The reports are incredibly accurate and insightful. You've got access to all the key metrics right there, unlike Clarizen, which is all over the shop."

TIM PULLEN
CEO, Cloudtech