BIGTIME

Professional Services KPIs & Metrics That Matter

THE BASICS & BEYOND

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Introduction

The value of the metrics you measure at your professional services business is directly correlated to the conclusions you draw and the actions you take.

To really get to managing, you must have a fundamental understanding of the underlying data sets that drive your business' KPIs and how they work together in balance to support your goals. This guide was created to cover what we think of as the basics for metrics management and beyond.

Our hope is to provide you with a roadmap that will show you where you might want to start and where to focus once the foundation is laid. From starting with the basics to evolving beyond what most of your competitors are likely doing, this guide has you covered.

Happy reading!

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What you can find in this guide:

- The 4 KPIs that we believe are the foundational metrics for professional services businesses.
- A deep dive into those 4 KPIs to explore some of the pitfalls and limitations of just stopping at a high level.
- Advice for how you may want to evolve your metrics and the processes that support them to better understand the actions you'll need to take to improve them.
- Industry findings from the Professional Services Automation (PSA) Software Benchmark Report and BigTime Software Benchmark Report that allows you to compare your business' performance with 750+ professional services businesses.

Metric #1: Delivery

In a study that we conducted with our client base consisting of hundreds of professional services businesses, the number one priority for them was delivering high-quality work for their clients. This result was consistent over services businesses in different sub-verticals, of different sizes, and in different countries.

The message was clear: a professional services business can thrive only if it can consistently deliver flawless work from which its clients derive exceptional value.

Measuring Quality

The question ends up being what do “flawless work” and “exceptional value” really mean? How does one actually measure “flawless” and “exceptional,” particularly when the types of projects that different services businesses deliver can be so varied?

We tend to break these questions down to the 2 lowest common denominators:

1. Meeting or exceeding client expectations on the delivery process.
2. Measuring the customer’s level of satisfaction with the delivered product.

Measuring Delivery

From a delivery process perspective, the classic metric is the ability to deliver projects on time and under budget. While this measure seems to be simple and straightforward, it is a great embodiment of the success or failure of several processes within the organization: scoping and planning the project in the first place, communicating and setting client expectations around that scope, successfully executing to that plan, and managing change.

The chief criticism about the traditional delivery success metric is that it is a lagging indicator and can only be measured once a project has been fully completed. Measures such as risk-adjusted performance to budget, performance to time-phased budgets, earned value, and estimate at completion require additional discipline to incorporate into delivery methodologies. They also require additional processes around more granular planning and estimation, forward-looking resource forecasting, and disciplined risk management models.

The payoff is an earlier indication of trouble in sufficient time to allow small course corrections to be effective rather than reliance on last-minute heroics. This in turn allows for more dependable, repeatable deliveries that allow for scale.

Consider incorporating these other measures into delivery:

- Risk-adjusted performance to budget
- Performance to time-phased budgets
- Earned value
- Estimate at completion

DELIVERY KEY TAKEAWAY: LEADING VS. LAGGING

The chief criticism about the traditional delivery success metric is that it is a lagging indicator. Consider leading indicators such as risk-adjusted performance to budget, performance to time-phased budgets, earned value, and estimate at completion.

Measuring the Final Product

Net Promoter Score

From the perspective of a delivered product, the foundational measure typically is some level of customer satisfaction. This often takes the form of a standardized measure such as Net Promoter Score (NPS), a metric introduced by Bain & Company that measures the percentage of respondents who would be vocal supporters of the organization minus the percentage who would be vocal detractors.

NPS is often measured immediately after the conclusion of a professional services engagement, where the afterglow of a recent launch might provide an inflated sense of true steady-state sentiment.

Referrals & References

Perhaps a better way to gauge customer satisfaction is a measure of reference ability, or what percentage of clients and former clients would be willing to spend some of their own relationship capital to serve as a reference for your organization.

Similarly, a measurement of the percentage of revenue that was sourced from referral business provides not only a picture of steady satisfaction but improving it can also greatly reduce the cost of customer acquisition.

Outcomes vs. Outputs

The more nuanced perspective around delivery success is the measurement of outcomes rather than outputs. Being able to objectively and credibly quantify ROI, payback time, or value delivered can be more revealing about the long-term business impact of the services provided.

This measurement of outcomes can be difficult to do well, but it can also provide sales and marketing teams additional assets to help drive growth and provide the inputs needed to develop even more profitable pricing models.

Metric Breakdown: How to Measure Delivery

METRIC	DELIVERY SUCCESS
Purpose	Measures what percentage of projects are delivered on time and under budget.
Basic Formula	$\text{Delivery success} = \dfrac{\text{projects delivered on time and under budget}}{\text{total projects started}}$
Benchmarks [I]	Good: < 75.6 % — Better: 76.0 % — Best: > 83.3 %

METRIC	NET PROMOTER SCORE
Purpose	Measures the differences between vocal promoters (clients responding with a score of 9 or 10 on a 0 to 10 scale) and vocal detractors (respondents scoring 0 to 6), ignoring passives (respondents scoring 7 or 8).
Basic Formula	$\text{NPS} = \left[\dfrac{\text{vertical promoters}}{\text{total respondents}}\right] - \left[\dfrac{\text{vertical detractors}}{\text{total respondents}}\right] \times 100$
Benchmarks [II]	Good: < 30 — Better: 45 — Best: > 62
Limitations	• Metrics like delivery success are lagging indicators that provide visibility into delivery success when it is too late to influence outcomes. • NPS provides feedback at a snapshot in time and can be manipulated based on timing of the feedback request
Masterclass	• Measure NPS at interim milestones or phase gates rather than just measuring upon delivery.

Masterclass	• Begin to incorporate more immediate metrics that provide earlier indicators of delivery dysfunction such as risk adjusted performance to budget, performance to time-phased budgets, earned value, and estimate at completion. • Utilize measures of customer satisfaction that are less easily manipulated such as reference ability and referral flow. • Measure outcomes rather than outputs in the form of ROI, payback time, or value delivered.
Evolution	• Start with the basics of delivery success and NPS to establish a baseline and an apples-to-apples measure that can be compared to the market. • Implement the disciplines and workflows that allow for visibility into the future such as forward-looking resource projections, and more detailed task planning. • Utilize the data from the forward planning as inputs into leading performance indicators. • Migrate from measuring outputs to measuring outcomes. • Turn the measurement of outcomes from a performance measurement exercise into assets that can be leveraged in your Go to Market strategy.

Metric #2: Utilization

Service-based businesses are built to translate knowledge-based labor (in the form of time) into money. That's why billable utilization is one of the most basic metrics tracked by almost every professional services organization.

Billable utilization is the principal measure of what percentage of the total available time is spent generating revenue.

Small changes in billable utilization can translate into huge differences in the revenue-generating efficiency of a business. A couple of percentage points of improvement in billable utilization can translate into an entire extra week each year of billable hours per consultant.

What to Keep in Mind When Measuring Utilization

Many professional services businesses struggle to measure their billable utilization. Oftentimes too, the data collected is questionable or insufficient. The collected data also tends to be measured inconsistently both within and across organizations, making it very easy to draw incorrect conclusions.

Another thing to keep in mind is that focusing too much on maximizing utilization can itself be detrimental to the business.

Pushing staff to ever-increasing levels of utilization can easily lead to burnout. Doing so may also cause important, but non-revenue-generating, activities like business development, investment in IP, or professional development to be neglected.

Using Utilization to Plan

Utilization is useful when thinking about the billable staff as a whole, but becomes even more useful when it's examined for particular subgroups. When broken down by department, level of seniority, location, or skills, measuring utilization for different cohorts allows leadership to plan hiring, training, and staff development strategies that align with the supply and demand of resources within the organization.

UTILIZATION KEY TAKEAWAY: PITFALLS

Too much of a singular focus on maximizing billable utilization can itself be detrimental to the business. It can lead to burnout, under-investment in important non-revenue generating activities, and neglect of professional development.

Metric Breakdown: How to Measure Utilization

METRIC	BILLABLE UTILIZATION
Purpose	Measures what percentage of time consultants are spending focused on generating revenue.
Basic Formula	$$\text{Utilization} = \frac{\text{billable hours}}{\text{total available hours}}$$ (often standardized at 2,000 hours/year)
Benchmarks [iii]	Good: < 62.7 % — Better: 71.7 % — Best: > 76 %
Limitations	• Billable utilization is a bit of a blunt instrument that may provide a one-dimensional view of resource efficiency. • Focusing too much on maximizing utilization can lead to burn-out and attrition.
Masterclass	• Measure billable utilization, sure, but supplement that measurement with additional metrics of chargeable utilization (what hours are actually generating revenue, not just what's intended to generate revenue) and

Masterclass	• productive utilization (what activities, like training or business development, does the organization want to encourage beyond solely generating revenue). • Consider stripping seasonality out of utilization measurements by dividing hours not by a straight 2,000 hours/year, but by the number of hours people showed up to work in a particular week or month. That way, you can reasonably compare utilization in typical months like March with utilization in months with a lot of holidays and time off such as December. • Set both minimum utilization targets AND maximum billable utilization targets to give people a minimum goal to strive for, but also a maximum ceiling to mitigate burnout and encourage investments in the longer term.
Evolution	• Start with getting consistent, automated, trustworthy billable utilization numbers for the past on a weekly basis without having to manually manipulate data. • Benchmark base utilization measurements against comparable in the market to determine how much potential for improvement may exist. • Build up resource planning capabilities within the organization to provide visibility of those same utilization measures into the future. • Begin tracking more nuanced utilization measures than just billable utilization and establish both minimum and maximum targets. • Level out seasonality in utilization measurements by normalizing for holidays and time off.

Metric #3: Profitability

Profit seems like a very easy concept to measure — it's just the revenue generated minus the costs invested to generate that revenue. What makes the world of professional services a little more tricky is the inflexible relationship between those labor inputs and outputs given the fact that most consultants are paid on a salaried basis. Profitability can sometimes be this tangled mess of bill rates, labor rates, and chargeable utilization.

For example, if you need one incremental hour from a consultant who is a salaried employee currently billing 20 hours a week, it may not be a big deal to get that 21st hour without paying them anything more. However, if they're already billing 70 hours a week and you need another

10 hours, those incremental hours may be very expensive if it results in burnout and eventually leaves for a competitor.

Marginal Profitability

Where most services businesses start is a simplified measure of marginal profitability. This measure ignores the fact that the consultant is a salaried employee and just assumes that every incremental hour has a bill rate and a labor rate associated with it.

While those rates may vary from person to person or project to project, this simplified measure doesn't attribute different rates if the hour in question is the first hour of the week or the 41st hour of the week. Marginal profitability ignores that a person is paid on a salaried basis and assumes an unyielding relationship between revenue and labor costs.

Perks of Marginal Profitability

Marginal profitability is an especially useful measure for project managers, client relationship managers, or anyone who isn't responsible for a whole resource, including their utilization, hiring, and professional development. It doesn't penalize the manager for not having enough billable work for the consultant, nor does it incentivize the manager to overwork their consultants.

Disadvantages of Marginal Profitability

The downside of marginal profitability, however, is that it ignores the reality that most knowledge workers are indeed paid on a salaried basis, which can lead to a distorted view of reality.

Whole Resource Profitability

For managers who are responsible for teams of people as a whole, the notion of "whole resource" profitability can be a better measure. Whole resource profitability measures the revenue generated by a resource over a period of time (such as a month) compared to what the resource was paid for that month.

These managers, who may be a department head, business unit manager, or owner have the incentive to hire, retain, develop, and grow their people while balancing those factors with generating revenue.

PROFITABILITY KEY TAKEAWAY: PERSPECTIVES

Different perspectives around profitability serve different purposes. Measuring profitability on a marginal versus whole resource basis drives different behaviors. Make sure you align the measure with the behaviors that you're trying to drive.

Profitability shouldn't be taken as a static measure but instead should be looked at over time. An organization that is adept at growing its revenue is great, but one that is able to continually improve margins is not just growing, it's scaling.

That improvement in efficiency may take the shape of technology enablement, development of stronger methodologies, changes in revenue models, or investment in proprietary intellectual property.

Metric Breakdown: How to Measure Profitability

METRIC	PROJECT PROFITABILITY
Purpose	Measures the difference between the revenue generated by delivering projects and the investment required.
Basic Formula	Project Margin = $\frac{\text{marginal revenue - marginal labor cost}}{\text{marginal revenue}}$
Benchmarks [IV]	Good: < 29.4 % — Better: 36.3 % — Best: > 37.2 %
Limitations	• Marginal profitability treats each hour equally, which doesn't work well for managers who are responsible for whole resources. • Whole resource profitability may incentivize project and client relationship managers to push resources to levels of utilization that might lead to burnout and attrition. • Measurement of profitability is dependent on accurate and consistent representations of revenue and labor costs in the first place.
Masterclass	• Make sure profitability calculations have an accurate representation of revenue that encompasses accurate bill rates, contractual terms, and up-to-date projections of remaining labor investments. • When comparing labor costs for internal employees and external contractors, make sure fully burdened labor rates are used for employees (typically estimated at cash compensation plus 18%). • In order to calculate whole resource profitability accurately, make sure to take pay category (whether a person is paid on an hourly or salaried basis and whether they are eligible for overtime) into account. • Consider the tradeoff between accuracy and privacy. While it may seem like a good idea to model each individual person's actual labor rate, doing so may limit the usefulness because of how sensitive the data is. Consider using more generalized banded labor rates to allow for more distributed decision making.

Evolution	• Start with ensuring accuracy in revenue data, including accurate bill rates, contract terms, and projections of remaining labor investment. Without it, profitability calculations will be useless. • Begin with generalized, banded labor costs to allow for more distributed decision making and then determine if additional specificity is worth it. • Start with marginal profitability measures as they're easier to understand and less likely to incentivize counterproductive behavior. • Determine if the more complex whole resource profitability measures are warranted and make sure the different profitability measures are aligned with the different roles and the different behaviors you want to incentivize. • Measure the change in profitability as compared to the change in revenue to see if the organization is just growing or taking advantage of economies of scale.

Metric #4: Growth

For most professional services organizations, the ultimate aim is to provide more value to more clients, thus growing the top line. As with the story of profitability, the foundation of measuring growth is having a consistent and accurate picture of revenue, both historically and projected into the future.

From the perspective of committed business, that entails having a complete model of signed contracts, including bill rates, contract terms, historical labor investment, and projected labor remaining.

Gaining Visibility into Growth

A solid picture of signed contracts is a great start to getting visibility into the immediate future. The next step is to combine that picture of booked business with the pipeline of high-probability sales. That combination provides visibility further into the future by incorporating a probabilistic model of factored revenue based on likely wins.

Given the business model of most professional services organizations, both the booked business and high likelihood pipeline will need to be supported by talent with the right experience and appropriate training/skills to be available at the right time.

The ability to deliver on the projected growth is heavily dependent on having a solid understanding of the supply and demand of labor within the organization, which can only be derived from solid resource management practices.

Rate Realization Model

No matter if you're looking at just booked business or also including pipeline business, one model that we've found helpful for understanding revenue growth is our rate realization model which provides visibility into the main sources of revenue loss.

For example, suppose the strategic planning of an organization assumes an average rate of $X per hour. Work then had to be sold at a discount to win it, some hours were then written off due to inadequate work, and some losses were incurred because the actual effort invested exceeded contractual terms.

The rate realization model highlights which of these sources of revenue loss were factors in diluting standard rates down to actual realized rates. This diagnostic information is key to determining what actions need to be taken to minimize losses going forward.

GROWTH KEY TAKEAWAY: NOT ALL REVENUE IS CREATED EQUAL

Some types of revenue are more valuable than others. Think about the value of recurring revenue, revenue from long-term contracts, and revenue from existing clients as compared to other, less valuable types.

Other Measures to Keep in Mind

Finally, as organizations move beyond just measuring and reacting to revenue growth, there are a myriad of secondary measures that help guide the business's revenue-generating model and strategy.

A number of these secondary measures are based on the recognition that one dollar of revenue is not necessarily exactly like the next dollar of revenue. Some revenue qualitatively is more valuable than other revenue, a fact that can manifest itself in large differences in the revenue multiple a company may command when it is valued during a sale or investment event.

For instance, an organization that has low concentration risk, generates revenue on a recurring (rather than one-time) basis, is able to reliably source new work from existing clients, and has longer more stable contracts, is then likely to be able to command a higher revenue multiple than its peers. Of course, the process of valuing a company is so infrequent that measuring the revenue multiple directly is impractical, so keeping an eye on some of those secondary measures can often be a good leading indicator.

Metric Breakdown: How to Measure Growth

METRIC	GROWTH
Purpose	Measures the growth of top line revenue from one period to the next.
Basic Formula	Revenue Growth Rate = $\left[\frac{\text{current period revenue}}{\text{prior period revenue}} -1 \right] \times 100\%$
Benchmarks [V]	Good: < 3.5 % — Better: 10.2 % — Best: > 19.3 %
Limitations	• Growth rates can be a lagging indicator if only historical revenue is taken into account or only a marginally leading indicator if only booked business is considered. • Projected revenue growth will be realized only if the organization is able to deliver on committed business by having the right talent available at the right time. • Actually optimizing revenue requires tools that provide visibility into sources of revenue losses. • Most basic revenue models assume all revenue is equal, and don't factor in the quality of the revenue.
Masterclass	• Make sure a solid foundation exists that encompasses solid historical tracking of time worked, accurate bill rates, contractual terms, and up-to-date projections of remaining labor investments. • Projected growth that cannot be supported operationally will be fleeting, so ensure the organization is looking at not just the dollars, but also at what it will take to earn the dollars. • Not all revenue is equal. Make sure the organization is able to measure the sources of revenue loss as well as the quality and predictability of the revenue.
Evolution	• Start simple with rock-solid tracking of historical labor investments coupled with modeling of contracts and bill rates. • Couple the historical view with forward-looking projections of booked business to enable both revenue forecasting and operational resourcing needs. • Fold in visibility of the factored pipeline on top of the picture of booked business to get a longer-term view. • Start measuring secondary metrics that provide pictures into sources of revenue losses as well as revenue quality. • Use secondary metrics to optimize sales and operating process as well as to tune revenue models and packaging.

Striking a Balance

One of the main points of articulating the breadth and depth of the metrics that can be used to measure and optimize a professional services organization is to illustrate how much can go into the process and how difficult it would be to implement everything at once — our advice: don't try. Instead, what we've always advocated is first striking a balance amongst the four main categories of delivery, utilization, profitability, and growth.

Solving solely for one of those factors inevitably sacrifices one or more of the others. Sustainability in a services organization stems from balancing these four main metrics and optimizing for all of them at once.

Pragmatically, what that balancing means is that if you're managing an organization that's starting from scratch, first implement the most basic metrics in each of the four areas to establish a foundation.

These basic metrics were designed to be both more easily implementable and more standardized across the industry.

Given that, you should be able to roll out these base metrics, measure your performance against the market, and identify one or more areas that you want to dive into more deeply.

Sustainability in a services organization stems from balancing these four main metrics and optimizing for all of them at once.

Embrace the Evolution

Once you decide which area to delve into, the evolution component of each section provides a bit of a roadmap for prioritizing that deeper dive. Build upon the foundational metrics by first ensuring the credibility of the data is strong and investing in tools and processes that allow the underlying data to be gathered and managed more quickly and more efficiently.

Once you decide which area to delve into, the evolution component of each section provides a bit of a roadmap for prioritizing that deeper dive. Build upon the foundational metrics by first ensuring the credibility of the data is strong and investing in tools and processes that allow the underlying data to be gathered and managed more quickly and more efficiently.

Get out of managing the business through spreadsheets, whiteboards, siloed point solutions, manual file manipulation, and other old-school methods, and invest in technology across the entire organization. Then, level up the business by evolving into measuring and managing the secondary, more nuanced metrics that will show you where to focus your next round of improvement efforts.

While this sounds overwhelming, it doesn't have to be. When you invest in Professional Services Automation (PSA) software like BigTime, you'll have access to real-time reports and insights so you can spend time growing your business. Findings from the **PSA Software Benchmark Report** and **BigTime Software Benchmark Report** revealed just how influential PSA software can be in terms of improving a business's productivity, efficiency, and profitability.

[VI] **90%**

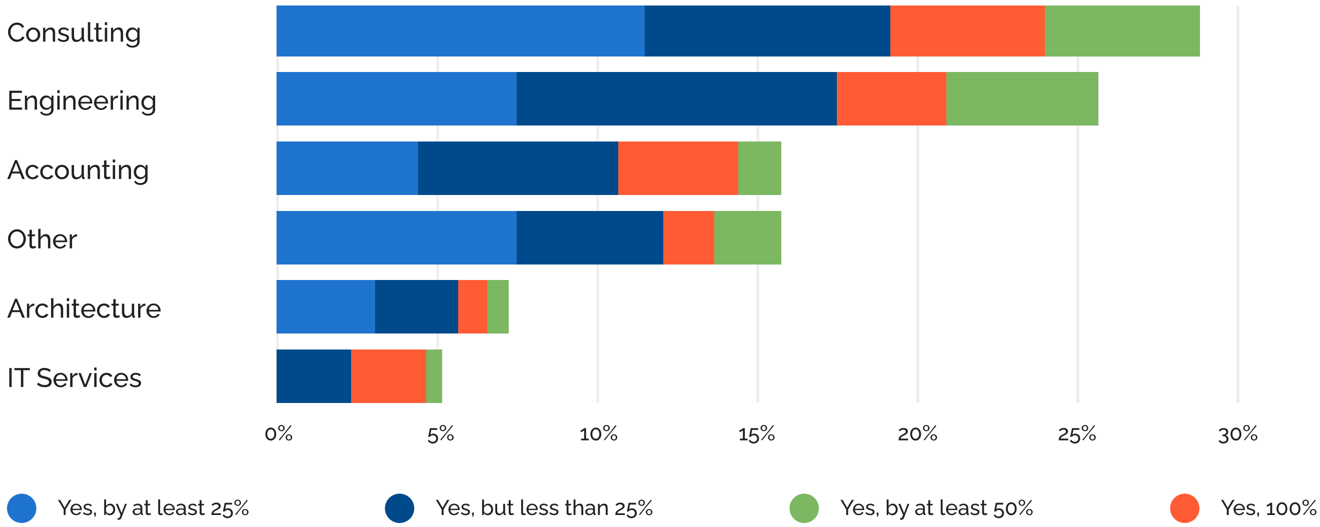
of projects executed in BigTime stay on or within budget.

[VII] **84%**

of BigTime customers report having clear visibility into accurate profit margins.

[VIII] Increase in Billable Hours Since Implementing PSA Software

BY INDUSTRY



If you're interested in learning how BigTime can help you gain visibility into key metrics and support you as you grow, let us know.

Our PSA software was purposely built to support the evolution and success of professional services businesses and we continue to innovate and evolve on behalf of our customers.

REQUEST A DEMO TODAY >

Sources and Notes

Notes

All benchmark numbers taken from the 2020 SPI benchmark, not the 2021 benchmark, because it is more representative of a normal year rather than one skewed by COVID.

Revenue growth numbers cobbled together because they're not clearly delineated out in the benchmark as follows:

- Low: 3.5% growth was the YoY revenue growth for the slowest growing subvertical (implementers of embedded hardware and networking equipment)
- Middle: 10.2% growth was the average growth rate for the whole population
- High: 19.2% was the growth rate of the best of the best (top 5%)

Sources

[I] Service Performance Insight, 2020 Professional Services Maturity Benchmark, 2020, p. 165.

[II] Retently, 2021 NPS Benchmarks for B2B, 2021.

[III] Service Performance Insight, 2020 Professional Services Maturity Benchmark, 2020, p. 165.

[IV] Service Performance Insight, 2020 Professional Services Maturity Benchmark, 2020, p. 165.

[V] Service Performance Insight, 2020 Professional Services Maturity Benchmark, 2020, pp. 32, 50.

[VI] BigTime Software Benchmark Report

[VII] BigTime Software Benchmark Report

[VIII] PSA Software Benchmark Report