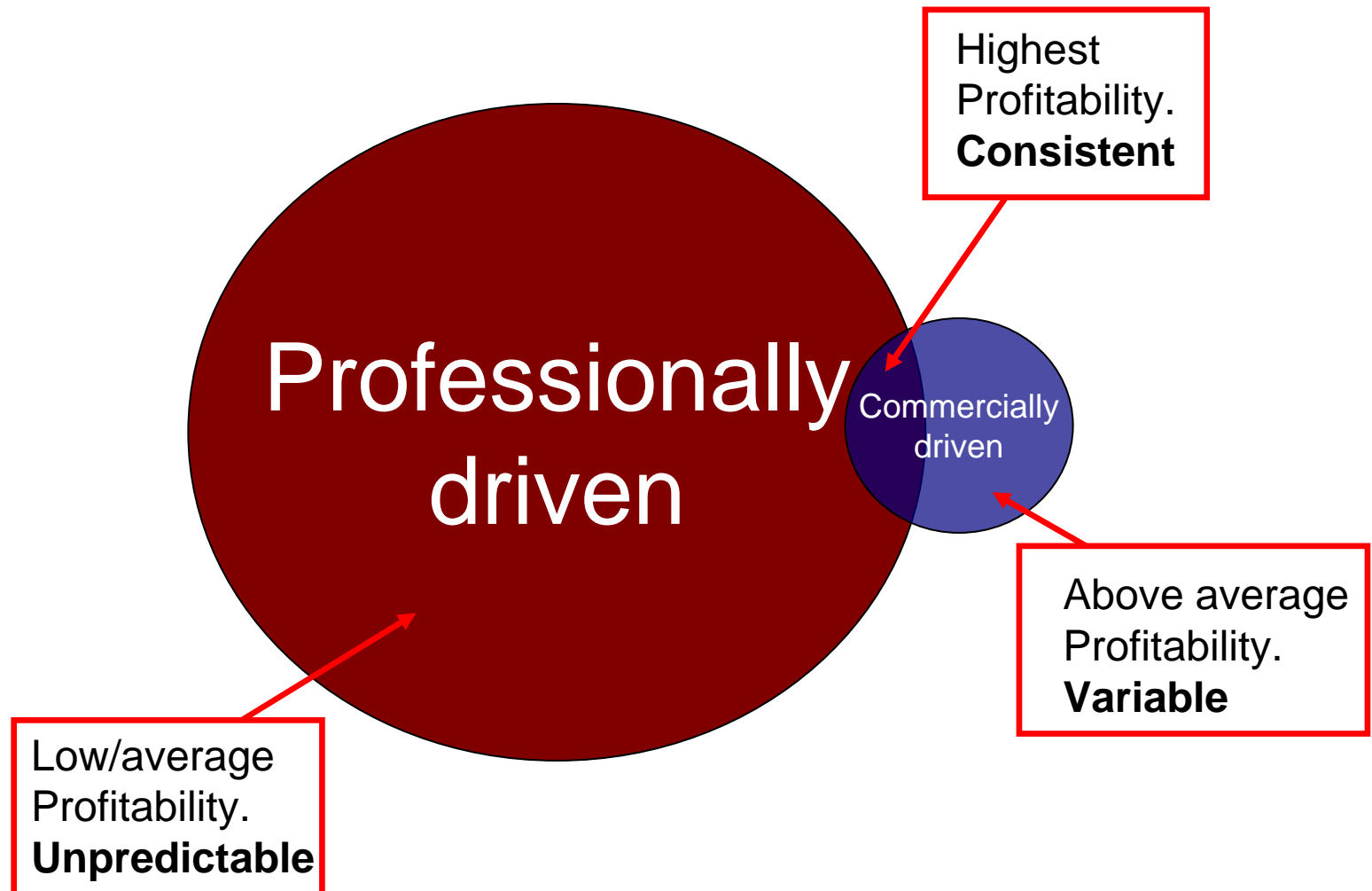




The '*Professional*' / '*Commercial*' Dilemma

Why it's eating your profits
and what you can do about it

'Professional' or 'Commercial'?





The 'Profitability Game'

- Small consultancy
- 10 people – all client facing
- £1m income
- £520k staff cost
- £350k other costs
- £130k PBT
- Average hourly rate - £100

**How many
billed hours
per person
per week?**



Billed hours calculation

- £1m income
- Divided by 10 staff
= £100k ea
- Divided by £100
ph = 1000 hrs
- Divided by 45
weeks

**22 billed
hrs pp pw**



The 'Profitability Game'

- Small consultancy
- 10 people – all client facing
- £1m income
- £520k staff cost
- £350k other costs
- **???** PBT
- Average hourly rate - £100

**If 25 billed
hrs pp pw**



The 'Profitability Game'

- Small consultancy
- 10 people – all client facing
- £1.125m turnover
- £1m income
- £520k start-up costs
- £350k per year

£1.125m

Profits doubled!

23% margin



The 'Profitability Game'

- Small consultancy
- 10 people
- client
- £1m
- £5m
- £25m

**At least
that's the theory!!!**

Profit

margin



But we don't sell bread...?



Important timesheet definitions

- Billable Time
 - **ALL time spent on client work**
- New Business
 - **Time spent on defined new business activity**
- Investment Time
 - **Unbilled time spent on existing account to secure/grow the business**
- Training
 - **On and off the job**
- Internal Management
 - **Business and non-billable people management**
- Internal Admin.
 - **Non-billable internal work**

Other important definitions

- Billed Time
 - **The billable time you're actually paid for**
- Planned write-off
 - **The time you've agreed up-front to give for free**
 - **(...or discounted off rate card)**
- Unplanned write-off
 - **The billable time you're NOT paid for**
 - **(...over-servicing!)**

In practice...?

- Typical week (we think!)
 - Billable client time - **27** hrs
 - New biz - **6** hrs
 - Investment time - **2** hrs
 - Training - **2** hrs
 - Internal mgmt - **4** hrs
 - Internal admin - **3** hrs
 - **TOTAL** - **44** hrs

In practice...?

○ Typical week (~~we think!~~)

- Billable client time
- New biz
- Inv

So what's going on?

- 4 hrs
 - 3 hrs
 - 44 hrs
- 2 hrs
4 hrs
9 hrs

Reality!



So what's going on?

- Over-servicing/write-off!
- 'Optimistic' classification of time
- 'Natural' desire to 'please'
- Internal Admin – everything else
- Lack of understanding of what is what
- Little monitoring/guidance

Setting 'norms'

- Should average to (roughly):
 - Billable client time - 27 hrs
 - New biz - 2.5 hrs
 - Investment time - 2.5 hrs
 - Training - 1.5 hr
 - Internal mgmt - 1.5 hrs
 - Internal admin - 2.5 hrs
 - **TOTAL - 37.5 hrs**

Setting 'norms'

	<u>junior</u>
● Billable:	32
● New biz:	1
● Investment:	0.5
● Training:	1.5
● Int. mgmt:	0.5
● Int. admin:	2

Setting 'norms'

	<u>junior</u>	<u>part/dir</u>
● Billable:	32	20
● New biz:	1	5
● Investment:	0.5	3.5
● Training:	1.5	1.5
● Int. mgmt:	0.5	4
● Int. admin:	2	3.5
● TOTAL		37.5 hrs



Killing the 'Admin' burden

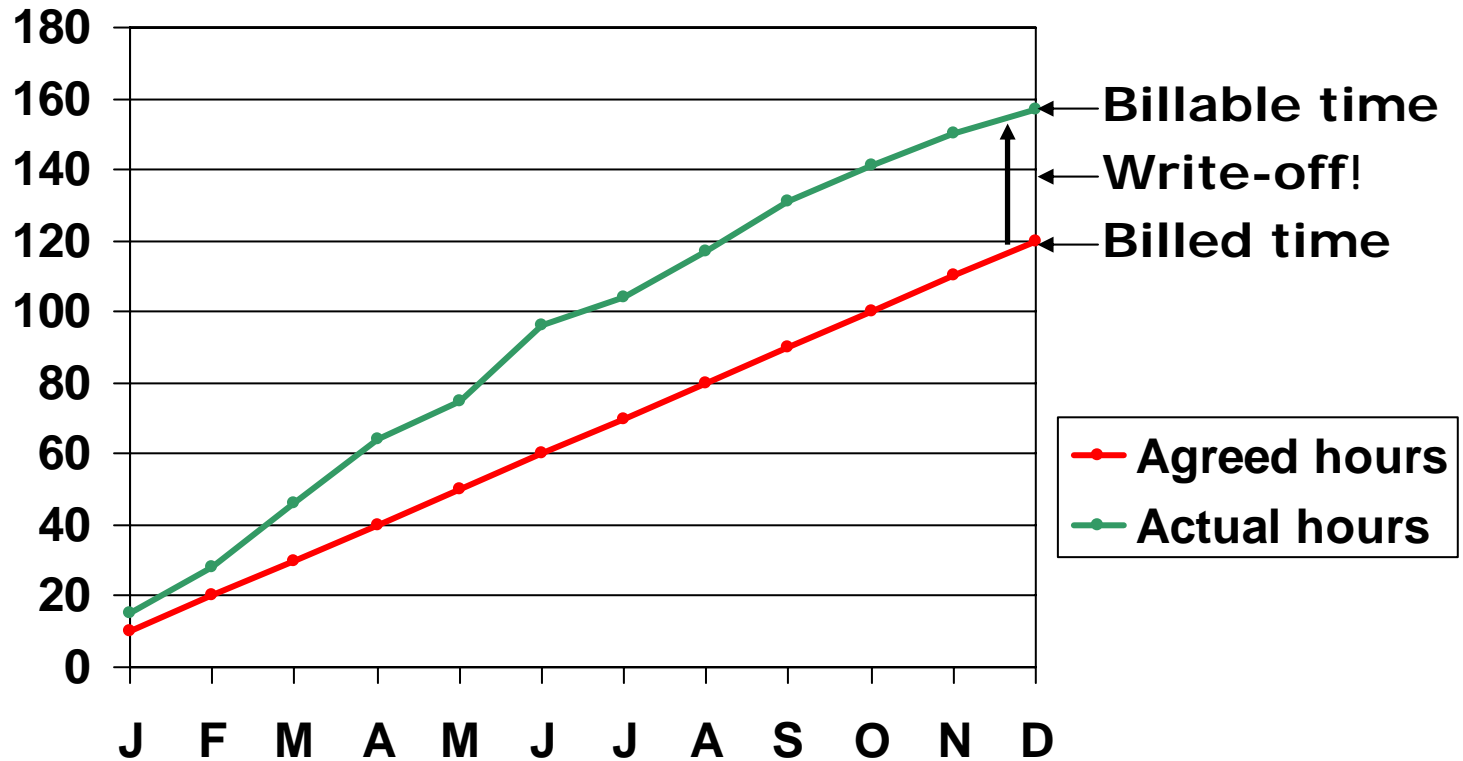
- DON'T waste time analysing 'Admin'
- Simply give staff more billable work to do
- For every hour of extra billable work the 'Admin' will reduce by an hour



Killing unplanned write-off

- Accurate timesheet recording
- Better 'estimating' of time
- Clear expectations of time 'allowed'
- Keep cumulative time spent/paid for records

Typical cumulative time record





Killing unplanned write-off

- Accurate timesheet recording
- Better 'estimating' of time
- Clear expectations of time 'allowed'
- Keep cumulative time spent/paid for records
- Individual hourly rates not 'team' or 'day' rates
- Proper staff management
- Regular reconciliations/reviews
- Strong client negotiation

The Key Ratios – time related

- Actual billable hours vs norm (pp pw)
 - Week, month and ytd
 - Aim for >100%
- Staff utilisation %
 - Total **billable** hours : total hours recorded
 - Aim for 60 - 75%
- Future capacity %
 - Norm **billable** hours : forecast hours required
 - Aim for 100% +/-
- Billability %
 - Actual **billed** time : recorded **billable** time
 - Aim for >95%

The Key Ratios – time related

- Write-off %
 - 100 – billability % ie <5%
- Investment time
 - Time invested in retaining cash-cow clients and/or growing future stars/cash-cows
 - Target < 7.5% of total time
- New biz
 - Time invested in winning new accounts
 - Target < 10% of total time
 - Create time budget related to scale/desirability of opportunity

The Key Ratios – financial

○ Profitability

- Ratio of profit to income %
- Aim for 15% – 30 %

○ Staff cost : Income

- Works with capacity forecast to highlight salary cost escalation
- Aim for 50-55%



Questions?