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17 BEST PRACTICES FOR

CAPTURING LOST REVENUE

- Time Management
- Processes & Procedures
- Project/Client Management

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The Professional Service Firm business model is supposed to be as simple as 1, 2, 3…

1. Staff performs work for clients
2. Firm bills the client for time worked
3. Client pays the firm.

However, many professional service firms, including consulting firms, architect and engineering firms, marketing, PR and ad firms, law firms, and even accounting, audit and tax firms, make preventable errors costing them lost revenue.

The most common of errors fall into the categories of Time Management, Processes & Procedures, Project/Client Management, and include:

•Misunderstanding of Utilization, widely thought of as the Holy Grail of key performance indicators (KPI's) for professional service firms.

- Absence of Detailed Performance Targets for divisions, departments, units and/or Individuals.

- Lost Revenue from failure to capture all billable time at specific intervals.

- Failure to Track Non-Billable Time, including time spent on business development, training, client attributable time or “CAT,” and more.

- Proper Time Write-Offs.

- Failure to know when to Increase Bill Rates and by how much.

This eBook is your guide to Best Practices for **Capturing Lost Revenue for Professional Service Firms.**

We identify 17 areas that cause drains on profits from lost revenue. Included is a road map for how to fix each and thus increase profits and efficiencies without needing to sell more work or make large investments.

HOW TO CAPTURE LOST REVENUE IN THE PROFESSIONAL SERVICE FIRM BUSINESS MODEL

Professional service firm cost structures are relatively fixed. Employee related costs, in some cases approaching 60% of revenue are the largest, and facilities costs are second. With these as the drivers there's little opportunity to easily and quickly reduce expenses should revenue slow down. On the other hand, within a bandwidth, as revenue picks-up costs usually remain relatively flat resulting in almost every dollar of increased revenue falling to the bottom line.

The leverage is powerful. Revenue could rise by 5% if just two lost billable hours are captured weekly for each consultant. Since no costs should follow these found revenues, the result could be a 20% boost in EBITDA margin, so a 20% margin jumps to almost 25%. The margin increases become exponential with every captured hour of lost revenue.

Profitability can be leveraged from implementing small easy fixes, and by assuring the staff follow the firm's "playbook" of processes, procedures and sound project management.
The attributes where firms often falter fall into 3 main categories:

1. Time Management
2. Processes & Procedures
3. Project/Client Management

PART 1:
TIME MANAGEMENT

1. Utilization Ratio
2. Not setting utilization targets
3. Not capturing all billable time
4. Not tracking CAT

Utilization ratio - Although a very important KPI, utilization is not the be-all-end-all metric for profitability. It's calculated for a time period, usually month-to-date and year-to-date as:

Billable Hours / Standard hours less the sum of Vacation + Holiday + other PTO hours

While highly useful it's also misleading. For example, in a 40-hour workweek, if a consultant worked 1 day with 8 hours of billable time and took 4 vacation days, their utilization would be 100%; a very good result, although the related revenue would be very low. Likewise, if a consultant worked 60 billable hours with a utilization of 150%, but the time was billed at less than their standard rate or was part of an overrun which could not be billed, revenue and profit would be lower than expected.

Not setting utilization targets - As much as calculating a utilization percent is critical, equally important is establishing targets by person, unit, department, division, etc. A monthly (or more frequent if possible) assessment of actual vs. target is a leading indicator of performance, allowing project managers (PMs) to change tack. Sharing the company's goals and results with staff objectively communicates their performance, and although not fully within their control they certainly can impact improvement if needed.

Not capturing all billable time - This is commonly referred to as “eating time” and is motivated by the staff person or project manager attempting to mask overruns and inefficiencies. Doing so hurts the business on two fronts. One is revenue where there’s a chance the time could be billed, so revenue is now lost, and the other impacts the data quality needed for running the business. Without a complete view of how time was spent, utilization is misstated, staff/PM performance cannot be accurately assessed, project profitability is overstated, and future proposals and project budgets will likely be understated.

Not tracking CAT - “CAT” or Client Attributable Time relates to time spent on proposals, client relationship meetings/events, pro-bono work, etc. While not tracking it is not a mortal business sin, knowing how and where it was spent is a handy piece of information. It provides insights on how the staff and PM’s interact with their clients in developing relationships. In certain instances, it may be determined that some CAT is billable.

PART 2:

PROCESSES & PROCEDURES

5. Delays in entering time
6. Capturing only billable time
7. Delayed vendor expense processing
8. Unbilled time or WIP
9. Neglected Accounts Receivable
10. Not billing admin staff time or overhead
11. Not increasing billing rates

Delays in entering time - All time, both billable and non-billable should be tracked and captured in a time recording system, optimally every day. Memories fade too quickly. If entered less frequently, it's a sure bet the critical details about how the time was spent will be lost and therefore not captured as billable and never converted to revenue.

Capturing only billable time - While tracking billable time assures revenue accuracy, it leaves behind valuable information about how the staff spent their time during the rest of the day/week/month. Management will never know whether the time was for business development, training, office tasks, running company errands, vacation, or unproductive down time. An incomplete accounting of how time was used precludes a true picture of staff and company utilization.

Delayed vendor expense processing - Ineffective processing and poor controls result in delayed or missed "pass-through" costs not being billed to the client, resulting in a direct reduction of profit. These invoices are often mailed directly to the PM since they are usually the point person with the vendor. Coding and approving them, which can be a laborious process, is not always the PM's highest priority.

Unbilled time or WIP - In many firms the PM reviews a pre-bill, determining which of the unbilled hours should be billed to the client. If processes are weak and controls poor, the PM might not review the pre-bill timely resulting in a missed billing cycle. They could also choose to bill fewer hours, perhaps if the time may be questioned and challenged by the client. In either case, revenue sits on the sideline. The longer it sits the less likely the chance of it being billed and ultimately collected.

Neglected accounts receivable - “Ownership” should rest with the PM with support from the finance or admin function. PM’s own their client relationships, making the critical service delivery and billing decisions, and should therefore be on point for collecting receivables.

Not billing admin staff time or overhead - Many projects require the support of admin staff for tasks such as report writing, filings or summarizing results. Including their time in the budget and assuring their awareness to account for this time will help convert it to revenue. Alternatively, although used less frequently, a single line item for “Administration Fee” representing 3 to 5 percent of the total invoice is another approach for covering support costs.

Not increasing billing rates - At least annually and under a process led by the CFO, standard billing rates for all levels should be reviewed and appropriately increased. With compensation costs usually increasing each year, revenue must grow to protect profit margins. This becomes most important for firms with longer-term contracts and billing rates fixed for the contract period. Those contracts reflect the rates in place at signing (or more likely from proposal) and if the rates are not current, revenue is lost.

PART 3:

PROJECT/CLIENT MANAGEMENT

12. Unapproved time write-offs
13. Unapproved billing rate changes
14. Maximizing profit on fixed fee projects
15. Bad or non-existing budgets
16. Not monitoring project budgets
17. Deposits and progress billings

Unapproved time write-offs - Reality is that at some point billable time will be written-off. Setting appropriate write-off approval levels will minimize the number and amounts of write-offs. Those closest to the project such as PM's should not approve write-offs, preventing them from hiding their inefficiencies and any under-performance by not billing all time spent on the project.

Unapproved billing rate changes - Billing rates for each level within the organization are a key driver of profitability. They are determined and set by senior management, usually with significant input from the CFO. These rates should be "locked." Reductions should be the exception with approval from a relatively senior level within the company.

Maximizing profit on fixed fee projects - Effectively staffing a project leverages the profit margin. Assignments which are not billed by the hour, but rather where the firm commits to delivering a service for an agreed upon price are referred to as fixed fee or lump sum projects. When possible and where properly supervised, capable lower level and thereby lower cost staff should perform a majority of the work on fixed fee projects. Doing so increases the profit margin. It also avails those more senior level staff with the higher billing rates to work on "hourly" projects, essentially leveraging the staff on two fronts.

Bad or non-existent budgets - For the most part, each project is unique, so the type, level and quantity of staff required, as well as the number of hours needed for completion will vary. Even before any work begins, this information is needed to develop an accurate proposal. That proposal should then be translated into a project budget with each consultant well aware of their time allotments and that they will be held accountable for meeting their hours.

Not monitoring project budgets - Once developed, PM's should assess actual hours against the budget, preferably weekly, with eye towards any potential overruns. Fending off the overrun should be the PM's first course of action, followed by understanding the underlying causes and whether the excess time can be billed. A conversation with the client early on allows for the best chance of billing and collecting the excess hours. Delaying overrun discussions with clients until the end of the project frequently results in the write-off of hours.

Deposits and progress billings - Collecting an upfront payment and assuring ongoing invoices are paid timely is critical for not only managing cash flow but for also assuring the work performed does not get too far ahead of billing and collections. While a delicate situation and sometimes not always an action which can be taken, consideration may be given to stopping work if accounts receivable grow large and old.

IS TECHNOLOGY THE ANSWER?

Technology clearly plays a part.

Many systems ranging from desktop applications to global ERP platforms exist, supporting firms with staff sizes from 2 to 200,000. These systems offer many inherent controls through their design and functionality which effectively lead the user firm to implement processes and procedures.

However, at the end of the day, those processes and procedures are carried out by people who either choose to follow the firm's playbook or not.

Every deviation results in a drain on profits.

CONCLUSION

Considering the number of people in a professional service firm and number of projects delivered annually, lost revenue can be significant, but conversely the opportunities can be great.

Start with small fixes today and you will drive a growing bottom line tomorrow.

ABOUT THE AUTHOR

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Ron Giaquinto is a finance and operations partner with TechCXO. He specializes in assisting professional service firms and B2B industry companies bring strategic, process and systems rigor to their organizations, translating company strategy into targeted operational and financial plans. Ron has more than 35 years of experience in small to large service industry companies as a CFO, CAO, controller, and in risk management roles.

As a CFO/Operations advisor, Ron has assisted Matrix New World Engineering, served as CAO with DF King Worldwide, an investor public relations and communications firm, and was the Worldwide Controller / Risk Officer at Towers Perrin. He has held additional finance and risk management roles with Y&R Advertising, Continental Insurance, ADP and PwC.

In both private equity owned and privately held businesses, Ron's experience spans the core finance areas, business operations, HR, M&A diligence and integration, strategic analysis, streamlining processes, and implementing controls. He has been involved with turning around functions and has significant experience with troubled areas/problem situations. Ron uses his extensive accounting, reporting and risk management skills to stabilize the environment and provide actionable data, driving performance and profitability.

Ron is a CPA and holds a BBA in Accounting from Pace University. He's the President of Financial Executives International NJ Chapter and a Hope for Animals rescue group volunteer.