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Service Business Metrics

Ranges from agencies and consultancies. Yours will differ.

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Capacity and Hours

DO YOU EVEN HAVE TIME

Available hours

TARGET

Paid hours - Time off

THIN · 1,750 · HEALTHY · 1,850 · GENEROUS

Capacity

RULE

Sum of available hours across the team, for the period

RECALCULATE MONTHLY, NOT ONCE IN JANUARY.

Utilization and Billability

ARE PEOPLE WORKING, AND DOES IT COUNT

Utilization

TARGET

$$\frac{\text{Hours worked on client projects}}{\text{Available hours, everyone}}$$

RUNNING ITSELF · 80% · HEALTHY · 100% · OVER-LOGGED

Billability

CORE METRIC

TARGET

$$\frac{\text{Billable hours}}{\text{Available hours, billers only}}$$

STAFFING PROBLEM · 80% · HEALTHY · 90% · BURNING OUT

Billable target

RULE

Available hours × Target billability

SET PER ROLE. ROUGHLY 80–85% FOR JUNIOR AND MID-LEVEL DELIVERY, 65–75% FOR SENIORS, 30–50% FOR MANAGERS AND SELLERS, NEAR ZERO FOR THE OWNER PAST ABOUT 15 PEOPLE.

Project management load

TARGET

$$\frac{\text{Project management hours}}{\text{Total project hours}}$$

UNPAID · 10% · HEALTHY · 20% · HEAVY CLIENT

How to read the meters

TARGET — stay in the middle

CEILING — stay under the line

RULE — no benchmark, know yours

Cost, Rates, and Realization

WHAT YOU CHARGE VS. WHAT YOU GET

Overhead rate

CEILING

$$\frac{\text{Overhead cost}}{\text{Direct labor cost}}$$

FINE · 120% · GETTING HEAVY · 150% · RUNS ITSELF

Cost rate and standard rate

TARGET

Cost rate: Labor cost ÷ Available hours

Standard rate: Cost rate × Target multiplier

Measured as Standard rate ÷ Cost rate

NO ROOM · 2.5× · HEALTHY · 3.5× · IN A DRAWER

Blended rate

RULE

$$\frac{\text{Total project revenue}}{\text{Total project hours}}$$

NEVER QUOTE A BLEND WITHOUT KNOWING THE MIX BEHIND IT.

Effective rate

CORE METRIC

TARGET

$$\frac{\text{Revenue}}{\text{Total hours worked}}$$

Measured as Effective rate ÷ Standard rate

NOT YOUR CARD · 75% · HEALTHY · 100% · YOU EARN IT

Realization

TARGET

$$\frac{\text{Revenue actually invoiced}}{(\text{Billable hours} \times \text{Standard rate})}$$

ESTIMATES WRONG · 85% · HEALTHY · 95% · EXCELLENT

Capped retainer

RULE

Time-and-materials work with a monthly not-to-exceed ceiling

EVERY CAPPED RETAINER NEEDS A WRITTEN ANSWER TO "WHAT HAPPENS WHEN THE CAP IS HIT IN WEEK TWO."

Givebacks

CEILING

$$\frac{\text{Hours given back}}{\text{Billable hours}}$$

FINE · 10% · LOOK CLOSER · 15% · AVOIDING A TALK

Margin and Profit

WHERE THE MONEY ACTUALLY GOES

Pass-through revenue

RULE

Pass-through billed at or near cost

STRIP IT OUT BEFORE YOU CALCULATE ANYTHING PER PERSON OR PER HOUR.

Margin at estimate

TARGET

$$\frac{(\text{Estimated fee} - \text{Estimated cost})}{\text{Estimated fee}}$$

A HOPE · 50% · HEALTHY · 65% · CHECK IT

Project margin

CORE METRIC

TARGET

$$\frac{(\text{Project revenue} - \text{Direct project cost})}{\text{Project revenue}}$$

STAYED HOME · 50% · HEALTHY · 60% · STRONG opsczar

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Margin and Profit (continued)

WHERE THE MONEY ACTUALLY GOES

Gross margin

TARGET

$$\frac{\text{(Revenue − Delivery cost)}}{\text{Revenue}}$$

50% · 60%

DELIVERY PROBLEM · HEALTHY · STRONG

Net margin

TARGET

CORE METRIC

$$\frac{\text{(Revenue − All costs)}}{\text{Revenue}}$$

10% · 20%

YOU BOUGHT A JOB · HEALTHY · EXCELLENT

EBITDA

TARGET

Net income + Interest + Taxes + Depreciation + Amortization

Measured as a share of revenue

10% · 20%

LOW, OR LUMPY BILLING · HEALTHY · EXCELLENT

Revenue per person

TARGET

$$\frac{\text{Revenue less pass-through}}{\text{FTE headcount}}$$

$150k · $250k

UNDERPRICED · HEALTHY · SENIOR-HEAVY

How to read the meters

TARGET — stay in the middle

CEILING — stay under the line

RULE — no benchmark, know yours

Cash and Billing

GETTING PAID IS ALSO A SKILL

Billing cadence

RULE

Milestone, monthly, or level invoicing

LEVEL MONTHLY ON ANYTHING OVER THREE MONTHS. MILESTONE BILLING ONLY WHEN THE CLIENT INSISTS, AND THEN WITH A DEPOSIT THAT COVERS THE GAP.

Work in progress

CEILING

Unbilled work value

Measured in billing cycles

1 · 2

NORMAL · FIND OUT WHY · SITTING ON IT

Days to get paid

CEILING

CORE METRIC

(Accounts receivable ÷ Revenue) × Days in the period

Measured in days

45 · 90

HEALTHY · FINANCING THEM · YOU ARE A BANK

Deposit coverage

TARGET

$$\frac{\text{Deposit received}}{\text{First-phase estimated cost}}$$

25% · 50%

FRONTING IT · HEALTHY · PREPAID

Forecast variance

TARGET

$$\frac{\text{(Actual revenue − Forecast revenue)}}{\text{Forecast revenue}}$$

Measured per project, monthly and year to date

-10% · +10%

BEHIND · ON TRACK · AHEAD, SUSPICIOUSLY

Pipeline and Retention

THE NEXT SIX MONTHS

Pipeline coverage

TARGET

CORE METRIC

$$\frac{\text{Weighted pipeline}}{\text{Period revenue target}}$$

2× · 3×

A HOLE · HEALTHY · WEIGHTED BY HEART

Backlog

TARGET

Backlog: **Undelivered contracted revenue**

Backlog in months: **Backlog ÷ Average monthly revenue**

Measured in months of delivery

2 · 4

THIN · COMFORTABLE · HIRE OR REPRICE

Win rate

TARGET

$$\frac{\text{Proposals won}}{\text{Proposals submitted}}$$

Calculate it by count and by value

25% · 50%

WHO ARE YOU PITCHING · HEALTHY · RAISE RATES

Recurring revenue mix

TARGET

$$\frac{\text{Retainer and support revenue}}{\text{Total revenue}}$$

30% · 50%

PROJECT SHOP · HEALTHY · MANAGED SERVICES

Revenue retention

TARGET

$$\frac{\text{Revenue from retained clients}}{\text{Prior-year revenue from those clients}}$$

90% · 110%

TREADMILL · HEALTHY · GROWING BOOK

Client concentration

CEILING

CORE METRIC

$$\frac{\text{Largest-client revenue}}{\text{Total revenue}}$$

25% · 35%

FINE · WATCH IT · YOU HAVE A BOSS

Scorecard

THE WEEKLY LOOK IN THE MIRROR

Scorecard measurables

RULE

5-15 weekly measures: owner, goal, actual

FIVE TO FIFTEEN MEASURES. SAME FORMULA EVERY WEEK. LABEL GOAL AND ACTUAL.

Seven core metrics to start with

Same seven numbers, same way, every Monday.

- Pipeline coverage
- Project margin
- Effective rate
- Client concentration
- Billability
- Days to get paid
- Net margin