

Service Business Metrics

Ranges from agencies and consultancies. Yours will differ.

Capacity and Hours DO YOU EVEN HAVE TIME

Available hours

TARGET

Paid hours - Time off



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

Hours worked on client projects
Available hours, everyone



Billability

CORE METRIC

TARGET

Billable hours
Available hours, billers only



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

Project management hours
Total project hours



How to read the meters

TARGET

CEILING

RULE

stay in the middle

stay under the line

no benchmark, know yours

Cost, Rates, and Realization WHAT YOU CHARGE VS. WHAT YOU GET

Overhead rate

CEILING

Overhead cost
Direct labor cost



Cost rate and standard rate

TARGET

Cost rate: Labor cost ÷ Available hours
Standard rate: Cost rate × Target multiplier

Measured as Standard rate ÷ Cost rate



Blended rate

RULE

Total project revenue
Total project hours

NEVER QUOTE A BLEND WITHOUT KNOWING THE MIX BEHIND IT.

Effective rate

CORE METRIC

TARGET

Revenue
Total hours worked

Measured as Effective rate ÷ Standard rate



Realization

TARGET

Revenue actually invoiced
(Billable hours × Standard rate)



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

Hours given back
Billable hours



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

(Estimated fee - Estimated cost)
Estimated fee



Project margin

CORE METRIC

TARGET

(Project revenue - Direct project cost)
Project revenue



Service Business Metrics

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Margin and Profit (continued) WHERE THE MONEY ACTUALLY GOES

Gross margin

TARGET

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



Net margin

CORE METRIC

TARGET

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



EBITDA

TARGET

$$\text{Net income} + \text{Interest} + \text{Taxes} + \text{Depreciation} + \text{Amortization}$$

Measured as a share of revenue



Revenue per person

TARGET

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



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



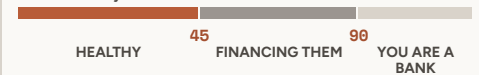
Days to get paid

CORE METRIC

CEILING

$$(\text{Accounts receivable} \div \text{Revenue}) \times \text{Days in the period}$$

Measured in days



Deposit coverage

TARGET

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



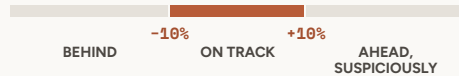
Forecast variance

TARGET

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

Forecast revenue

Measured per project, monthly and year to date



Pipeline and Retention THE NEXT SIX MONTHS

Pipeline coverage

CORE METRIC

TARGET

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



Backlog

TARGET

Backlog: Undelivered contracted revenue
Backlog in months: Backlog ÷ Average monthly revenue

Measured in months of delivery



Win rate

TARGET

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

Calculate it by count and by value



Recurring revenue mix

TARGET

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



Revenue retention

TARGET

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

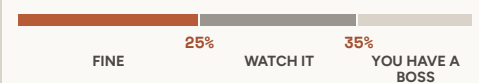


Client concentration

CORE METRIC

CEILING

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



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