Utilization is THE factor determining profitability for professional services firms and project-based businesses. However, major challenges to measuring and managing to this key metric are caused by siloed business systems. Disconnected technology has a direct, negative impact on every level:

- Wasted effort drags down productivity and reduces billable hours.
- Inefficient, misaligned, and manual processes negatively impact hours billed.
- Limited visibility and poor business insights weaken decision-making and alignment between the project pipeline and resource capacity.

The solution? Modern, connected systems provide the capabilities needed to make operational, tactical, and strategic improvements that drive better utilization and, ultimately, greater revenues and profit.

Read this white paper to learn:

- The metrics that matter in measuring utilization.
- How you can use and learn from these utilization metrics.
- The organizational, team, and individual challenges caused by disconnected systems.
- Why traditional resource management often fails to deliver expected results.
- A framework for improving utilization and how connected technology can enable your ability to execute on it.
- Goals, objectives, measures, and specific actions you can take at the operational, tactical and strategic levels to drive improvement.
Understand Metrics

Understanding how we measure utilization is an important first step in the discussion. While conversations tend to focus on the Utilization Rate, it is only one of three key metrics you need to measure to drive greater profitability:

**Utilization Rate =**

\[
\frac{\text{Hours Worked}}{\text{Total Available Hours}}
\]

Simply, this measures how many productive hours are actually worked from the total available work hours. Total number of available hours includes both billable and non-billable time (training, business development, community building, etc.).

So, if an employee works 1500 hours out of 1800 available hours, they would have a utilization rate of 83.34%.

**Realization Rate =**

\[
\frac{\text{Total Billed Hours}}{\text{Total Billable Hours}}
\]

Closely related to the utilization rate, this metric reflects total billed hours as a percentage of total billable hours.

If the firm sets aside 200 hours for training and non-billable work, the total billable hours would be 1600. So, an employee working 1500 hours would have a realization rate of 93.75% (as opposed to a utilization rate of 83.34%).

Chargeable Utilization

This measure tells you what percentage of total billable hours is actually chargeable to a customer and results in revenue. The realities of service business mean there will always be hours that need to be scrubbed, or work redone, reducing your realized revenue.

It’s easy to see how these metrics impact your firm’s profitability: If you’re not fully utilizing your resources, and not billing for their work, you’re leaving profits on the table. But there also are other insights to be learned from utilization metrics, such as:

- A large gap between utilization and realization rates means that your resources are spending too much time on non-billable tasks.
- Consistently high utilization rates mean that your resources may be overworked.
- Consistently low utilization rates signify that you need to bring in more work.
- Tracking utilization for each skill and employee-type helps you plan hiring and projects.
- Tracking utilization rate by skill shows you demand for different services that your company offers.
- Utilization rates above 100% can imply out-of-scope work and poor project planning.
- Tying utilization rate to profits can indicate your most profitable services and which parts of your business should be invested in.
- Tracking realization rate by customer shows you which of them are profitable and which ones lead to out-of-scope work (i.e. lead to over-utilization/realization).
In order to drive improvement of utilization, businesses need to address operational, tactical, and strategic issues. By managing at each level with a focus on utilization, businesses can implement the changes needed to improve performance. The traditional path to improvement is based on the principals of resource management. Resource management is all about planning, managing, and deploying the right people skills at the right time on the right projects. Of course, you need to follow these principals to succeed, but it is a process-first approach that often results in the implementation of systems based on desired process improvements and technology functionality, but neglecting the people aspects of your business.

We believe that instead of the traditional approach, companies should take a people-first approach. Why?

- Ignoring the operational level – the people impact – is the limiting factor in project success.
- Change management is the key to adoption and improved performance.
- People are the key to quality projects and to the success of a services business.

Ultimately, the **fastest business value and most direct measure of ROI can be found in operational**
improvement. Simply minimizing the non-productive time of billable resources – as well as non-billable staff – will have an immediate impact on utilization. The more immediate gains that manifest at the operational level will not only drive buy-in, but also better visibility and insights which will improve the quality of the decision-making and changes that you make at the tactical and strategic levels. And that is what will make resource management work and drive improved utilization.

Disconnected Technology Presents a Core Challenge

Unfortunately, a major obstacle to minimizing the non-productive time of billable and non-billable staff is tied to an organization’s disconnected technology systems. A typical business has multiple functions and – in general – multiple systems to support those functions. For example:

- Sales and Marketing functions have some combination of CRM, SFA, and marketing systems or other tools.
- Project Estimation can have a configure, price, and quote tool.
- Project Management and Project Accounting may be supported by a PSA system.
- Financial Management will have an ERP or Accounting system.
- Management may have a centralized Business Intelligence/Reporting tool.
- Everyone in the organization uses personal productivity tools such as Microsoft Office or Google Docs.
- Plus, systems for internal and external communication and collaboration.

If there aren’t dedicated systems, your people are either using spreadsheets or relying on manual processes. For most businesses, there is little or no automated integration between any of these systems or functions. This combination of multiple, disparate systems, manual processes, and lack of integration is the core challenge to improving utilization.
Issues Caused by Disconnected Systems

When business functions work independently on different systems pervasive problems ensue. These result in wasted time, weakened performance, inaccurate data and considerable costs to the organization. The issues that impact utilization the most include:

■ **Multiple UX/UI (User Experience or User Interface) models** require staff to learn and manage different sets of controls, procedures, and navigation methods.

■ Different systems also require **multiple security and administration models**, necessitating larger budgets for IT and frustrating users by complicating user name and password management.

■ **Disconnected and/or manual work processes** create “functionality silos” that often result in redundant processes, wasted time, inaccuracies, and skipped steps...all of which can result in execution issues, poor project quality, and rework.

■ **Redundant or unnecessary data entry and manipulation** is another major waste of time. It also can cause what we like to call “Excel hell” -- people must take data out of various systems and manually manipulate it in Excel for the data to be usable.

■ The inability for systems to communicate with each other creates an environment ripe for **communication complications**. A reliance on email to share data and documents can often result in versioning issues for documents and reports.

■ Workers expect to and need to be able to work and access their data no matter where, when, and on what device they are working. The challenges of multiple systems become more difficult to overcome when multiple devices are introduced creating real **mobility issues**.

■ There is a huge hidden cost to **training and onboarding** staff for multiple UX/UI and security models as additional formal training is needed for all the systems and then more time is needed for users to learn the integration and reporting “hacks” to effectively use them.

■ Most importantly, disconnected systems can lead to poor business insights and **poor business decisions**, as different systems potentially report contradictory information about projects; multiple executives pull data from multiple systems and manipulate that data to come up with their own versions of the truth; and executives react too slowly based on data that is old because they aren’t automatically receiving the most up-to-date information.
Taking Action to Improve on Utilization

On the other hand, connecting your business’ people, processes and technology will allow you to maximize utilization across operational, tactical, and strategic focuses, resulting in improved performance and profitability and the ability to achieve business objectives and goals.

Intelligent, connected systems are the key to addressing operational, tactical, and strategic business challenges. Focusing on the issues impacting utilization on each level will result in improved performance and the ability to achieve business objectives and goals.

Operational Level

The primary goal here is to increase the number of billable hours. In order to reduce the amount of time billable staff loses to non-billable activities and tasks that don’t add value, businesses need to make changes that will improve individual and team productivity. The key metric at the operational level is the Utilization Rate.

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<tr>
<td>Operational</td>
<td>Increase Billable Hours</td>
<td>Team and Individual Productivity</td>
<td>Utilization Rate</td>
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The top actions you can take to improve available billing time include:

- **Reduce App Switching** – Numerous studies have been done on productivity lost when workers need to toggle between applications. The most conservative calculations estimate that a typical user wastes 40 minutes each day switching back and forth between applications. For a company with 100 staff members billing $100 an hour, this represents 1500 potentially billable hours per year – which can amount to over $150K – being spent on simply opening and closing apps!

- **Simplify Time Entry** – Time entry is the virtual building block of your revenue chain. The easier you make it for staff to enter their time and expenses, the timelier and more accurate that data will be, which will drive improvement through the entire billing and revenue cycle.

- **Minimize Administrative Tasks** – Time spent on administrative tasks is, by definition, non-billable time. The goal is to eliminate as much as possible redundant or unnecessary activities or any task where billable resources aren’t creating customer value. Any task that can be automated, should be automated, and those remaining, necessary administrative tasks should be performed by dedicated administrative, non-billable staff.

- **Automate Workflows** – Automating workflows frees up billable time, increases accuracy, and minimizes exceptions. It also improves coordination and collaboration across teams.

- **Simplify Communications** – Simplifying communications also improves billable time and accuracy. Furthermore, it will help manage customer expectation, not only increasing billable time but contributing to better realization and chargeability. In addition, simplifying communication will also reduce internal, non-billable, meeting time.
Provide Relevant Information by Role –
Providing staff with simplified access to the business information they need – when they need it – is probably the best way to both create more billable time and make staff members more effective during that time. When billable resources have real-time insight into their utilization, billing rates, and project and task status, they can make informed decisions to better prioritize their time and efforts, improving project quality and the customer experience.

The primary focus, again, is creating more billable time for billable resources, but these operation improvements can impact performance across the organization. For instance, non-billable staff also will find more available productive time, which they can focus on value-added activities, customer-facing time, and more effective tactical planning and decision-making. And executives will have better insights and more time to focus on tactical and strategic decision-making, which will drive improved traditional resource management.

Tactical Level
Implementing connected systems and addressing the operational challenges that stood in the way of improved utilization will not only improve productivity, but provide your people with the time and insights to focus on tactical issues. Here we focus on improving how your organization does business. You want to implement more effective processes across marketing, sales, project, and financial management that will increase revenues and drive down costs. The goal is to increase the actual hours billed, measured through the Realization Rate.

The table below outlines the focus, goal, objective, and measure for the Tactical Level:

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<tr>
<td>Tactical</td>
<td>Increase Hours Billed</td>
<td>Effective Business Processes</td>
<td>Realization Rate</td>
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Simply put, you want to make changes that will allow you to sell more projects and minimize non-billable work:

Market and Sell to Target Customers –
Orient your sales and marketing to focus on customers in industries or with project needs that fit the skills and domain expertise of your resources. This will improve the effectiveness of your sales and marketing, resulting in more closes and more accurate forecasting. It will also result in a better fit between the project portfolio and your resources which will reduce non-billable hours on projects. You'll need less formal training time and, more importantly, minimize both non-billable, on-the-job training as well as the inevitable rework when resources work on unfamiliar projects.

Improve Project Estimation – Poor project estimation is the cornerstone of lost billing. Market trends and customer demands are driving more and more fixed-cost projects and packaged services which make the firm responsible for any additional hours. Even on time and materials engagements, when the project runs over-budget the firm takes some kind of hit. Improving project estimation will minimize the amount of “free” – non-billable and non-chargeable – work your resources do for your customers.
Have the Right Resources on the Right Projects – Here is where you want to apply the principals of traditional resource management. With improved insight and forecasting ability, your project and resource managers will be more effective in scheduling resources when and where they will be most effective, driving better quality and less rework and lost billing.

Manage ‘Over-Servicing’ Customers – If you’ve been effective in the first three bullets, you’ll have less exceptions to manage and less need to make customer accommodations that result in lost billing. Additionally, improved insight into customer behavior and customer value will enable you to make better decisions about which customers and projects merit accommodations and where to invest additional marketing and sales resources to sell more projects and increase billing.

Improve Billing Accuracy – Comprehensive coordination between project management and financial management will drive many benefits, but combining that coordination with more timely and accurate timekeeping will result in significantly more accurate billing. In addition to shorter DRO, better cash-flow, and happier customers, you can reduce write-offs and maximize your hours billed.

Strategic Level

A business with a highly productive workforce, empowered by connected tools and technology, operating with streamlined processes and strong tactical direction, is a business far more likely to successfully execute on strategic change. Improvements made at the operational and tactical level roll up, providing executives with both the insights to effectively plan and make decisions and the ability to effectively drive action through the organization. In the case of improving utilization, the goal is to align pipeline and resource capacity to optimize revenue and profitability. Chargeable utilization is the initial measure, which represents the top line revenue generated by the staff and is therefore a primary KPI of EBITDA.

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<td>Chargeable Utilization and EBITDA</td>
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The actions here are simple in concept and easy to define, but complex and challenging to execute – especially for organizations without connected systems:

Focus on Improved Forecasting – The operational and tactical improvements made in Sales, Project, and Financial Management and the insights derived from these improvements will naturally be accompanied by more accurate forecasting in each of these individual functional areas. At the strategic level, you want to focus on collaborative forecasting across these areas.

Optimize Project Portfolio to Fit Forecasting

With a coordinated forecast incorporating the sales pipeline, project pipeline, and financial projections, you are in a position to not only be more competitive in the market, but have the ability to make investments in solution and new service development to capitalize on current market demand and prepare for anticipated changes.
Progressus gives you the power to maximize utilization, deliver great projects on-time and on-budget, and optimize the project portfolio. Beyond projects, you get the tools and insights to drive excellence in strategic planning, sales and marketing, operations, finance and administration and deliver the best customer experience possible.

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