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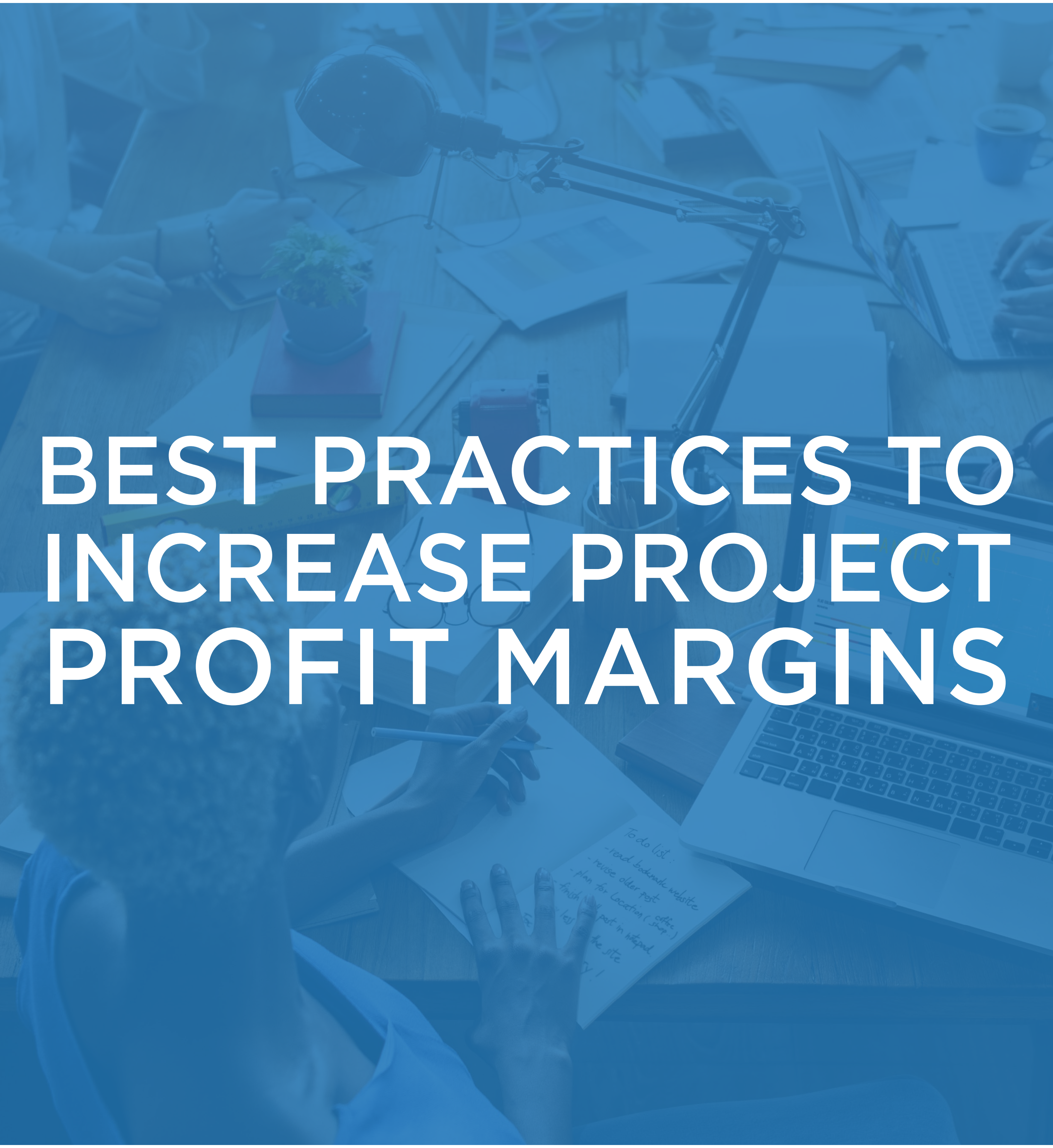

BEST PRACTICES TO INCREASE PROJECT PROFIT MARGINS

HOW TO CUT PROJECT COSTS AND MAKE YOUR SERVICES BUSINESS MORE PROFITABLE

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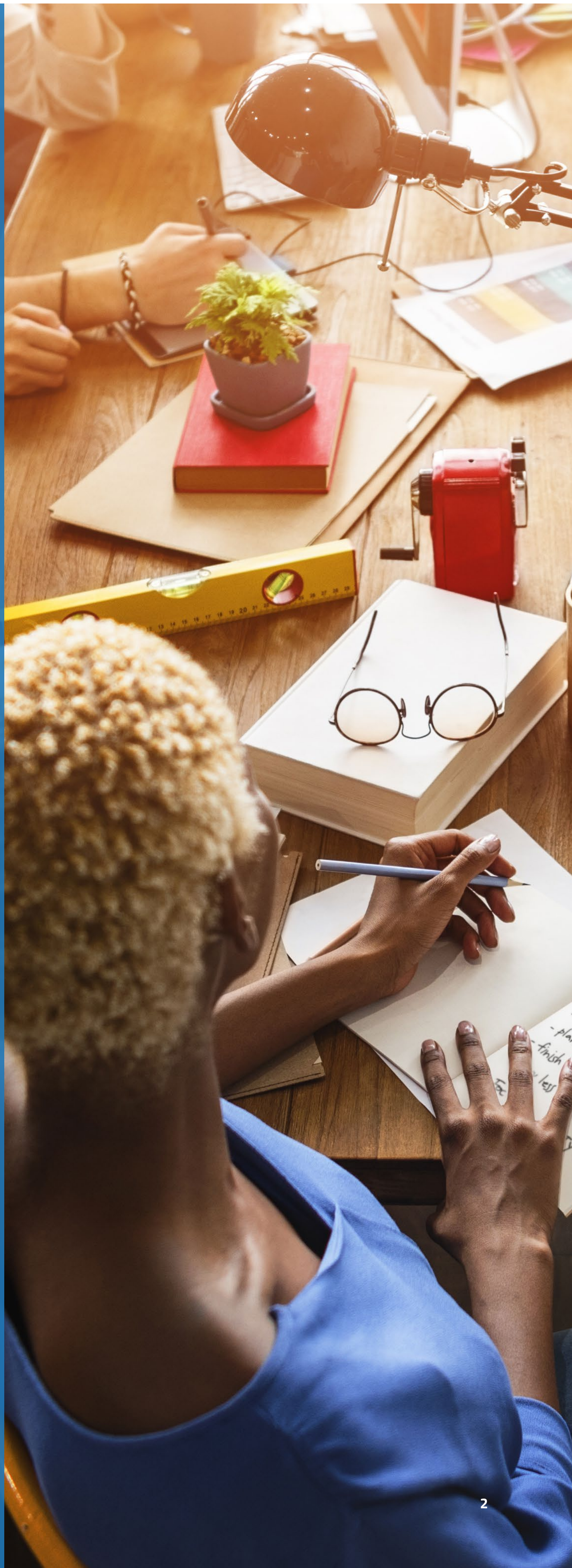

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INTRODUCTION

A critical first step is to understand the profitability of the company as a whole, as well as the impact of each billable (and non-billable) project.

You may be surprised to learn that keeping your business healthy aligns with the guidelines a doctor might give you to promote a healthy lifestyle:

- Pay attention to what you do each day
- Identify and let go of bad habits
- Prioritize and invest time in activities that promote beneficial returns
- Be selective and trim the fat wherever you can

These recommendations become particularly relevant when companies focus on profit margins, i.e. how profitable the business is. This percentage is derived from how much revenues exceed costs, or the company's net income divided by total sales generated. At the most simplistic level, profit margins can be increased by driving up revenues, reducing costs, or, ideally, accomplishing both.

While every business may want to increase profit margins year-over-year, a critical first step is to understand the profitability of the company as a whole, as well as the impact that each billable (and non-billable) project has on the overall financial picture. Without this oversight and visibility, business leaders can't recognize the true cost of doing business, let alone identify areas for improvement.

Increasing your profit margins is especially challenging in competitive project-based environments such as professional services, IT, and consulting. Many firms watch their margins take the hit when projects are poorly estimated, internal resources are mismanaged, scope creep occurs, or clients throw off schedules.

To ensure projects are fast-tracked for success and profit margins are protected, this white paper focuses on best practices you can adopt to improve operations, as well as questions to address when thinking through your pricing and sales strategies. ■

DECREASE NON-BILLABLES

SECTION ONE

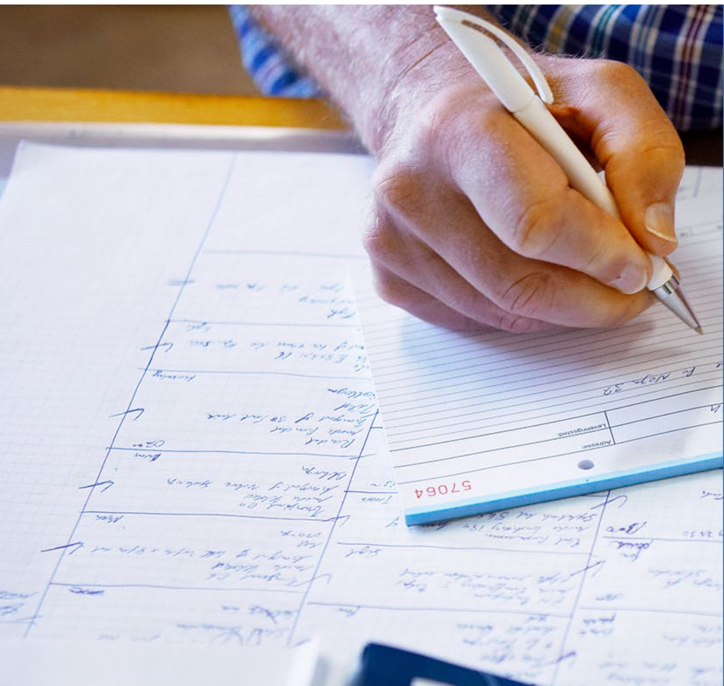
Non-billable time is a necessary evil; not every moment of every workday can be devoted to project work. However, one of the easiest methods for cutting costs is to decrease the number of non-billable hours on the ledger. You may not realize it today, but non-billable time may be the single highest cost you have.

When running a professional services or consulting firm, the most valuable inventory to protect is time itself. Hours must be managed closely and accurately in order to increase output and billing potential. What may be eye opening is that employees, on average, bill approximately four hours per day over the course of a year when you add in things like non-billables, down time, vacation, personal time, etc.

In other words, your business is likely "losing" half a day of work (or four hours) every day per employee. If that number gives you pause (as it should), then it's time to discover how to get the most productivity possible out of the true hours of work each employee puts in. How do you shed light on non-billable hours and then decrease them?

The answer is remarkably simple: your team utilizes some method today to capture their billable hours for client billing purposes, so simply require employees to account for non-billable hours as well.

While this idea may not be popular at first, it helps to reframe the ask and emphasize that the goal is not to punish anyone or to get employees in trouble. Instead, you're looking for ways to make everyone's work life easier by discovering what tasks eat up time. The savings from lowering non-billable time ultimately helps the entire firm and provides higher profit margins from which additional employee benefits could be provided (such as more vacation time or increased salaries or bonuses). ▪



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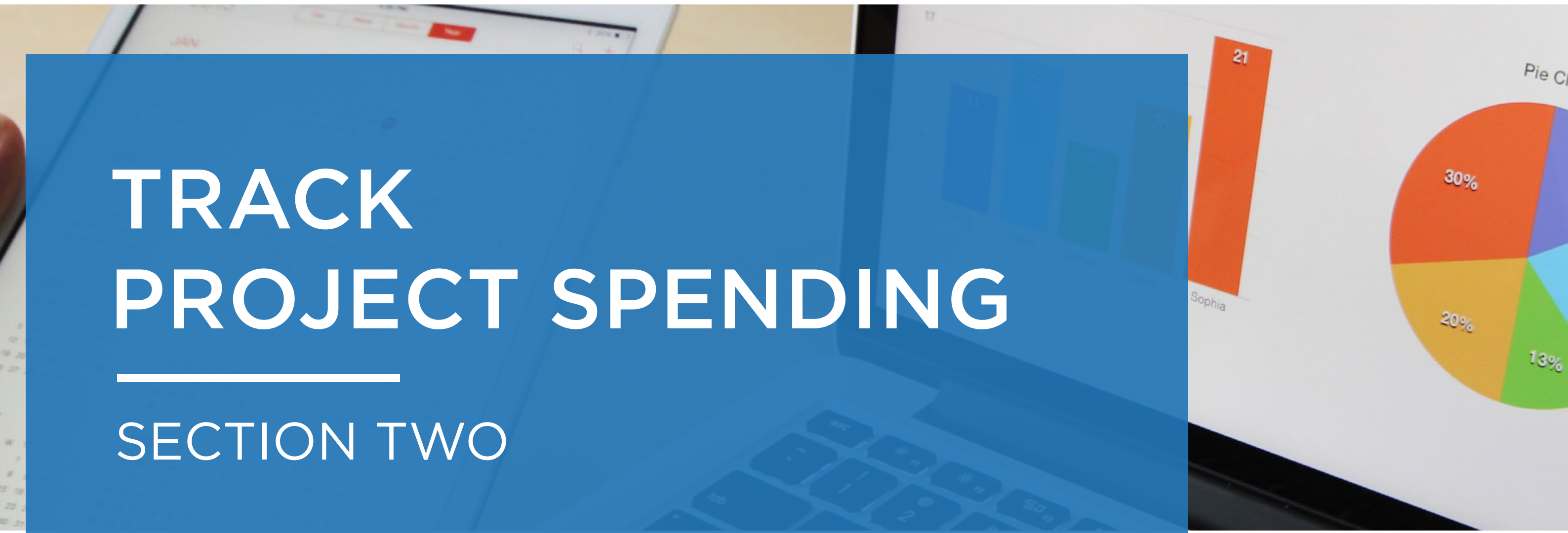


TRACK PROJECT SPENDING

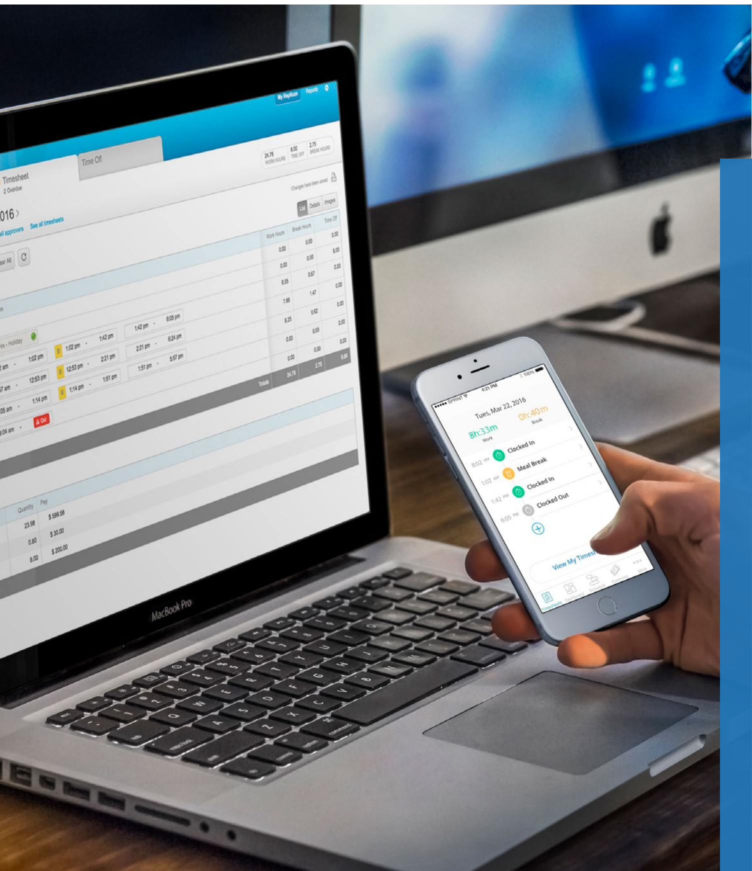
SECTION TWO

While creating accurate estimates upfront can start a project out right, it's equally important to track project spending over time.

Any time an employee works on a task that is outside the scope of the original agreement, or a project manager tries to squeeze in extra hours to keep a client happy, your profit margins are at risk. While the intent is honorable—many employees are inclined to think about the quality of the project over the down-the-line profit—the end result will likely hurt the firm.

The best way to combat this challenge is to keep a close eye on project hours and spending to track to your profit goal. While creating accurate estimates upfront (ideally by utilizing historical data) can start a project out on the right trajectory, it's equally important to track project spending over time.

Standardized processes and real-time time tracking are critical. Project managers and business leaders should know at any given moment if actual project costs match budgeted costs. In fact, regular gut checks should be performed so it's easy to identify quickly if projects are at-risk for budget overruns. ▪



At the end of the day, all projects are made up of humans, so it's important to plan pojects based with the employee in mind. Project tracking can help reallocate resources when needed so you can avoid burning out your project workforce.

IMPROVE UTILIZATION RATES

SECTION THREE

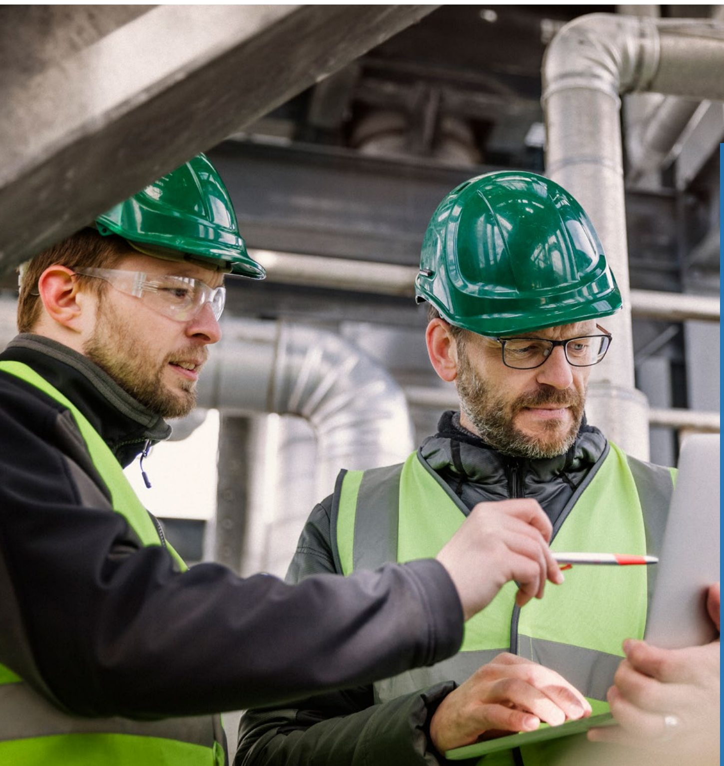
Knowing who is the best fit for a project isn't just about having skilled workers- it's about knowing if they have time to do their best.

Every person has strengths and weaknesses in the workplace. As the employer, it behooves you to utilize resources in the most efficient way possible.

Part of this challenge lies in putting employees on projects for which they are best suited. Knowing who the right resource is for a project isn't about one person's skills; it's about understanding the strengths of every employee across the company and knowing how to best utilize each employee at any given time.

Project managers are your go-to person when you need insight into budgets, schedules, resources, and outputs, but to do their job with accuracy and precision, they require real-time access to project status data and reports. With visibility into each employee's current and upcoming projects, as well as the strengths they bring to the table and their utilization rate for any given type of project, managers are empowered with information they can use for proper staffing.

By maximizing your resources in this manner, projects can be completed more quickly and efficiently, which saves time and money, keeps clients happy, and helps boost your profit margins significantly. ▪



! Having clear data with utilization rates helps empower managers with information so they can focus on proper staffing and planning. Maximizing your resources means that projects can be completed faster and save money.

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INCREASE PRICES

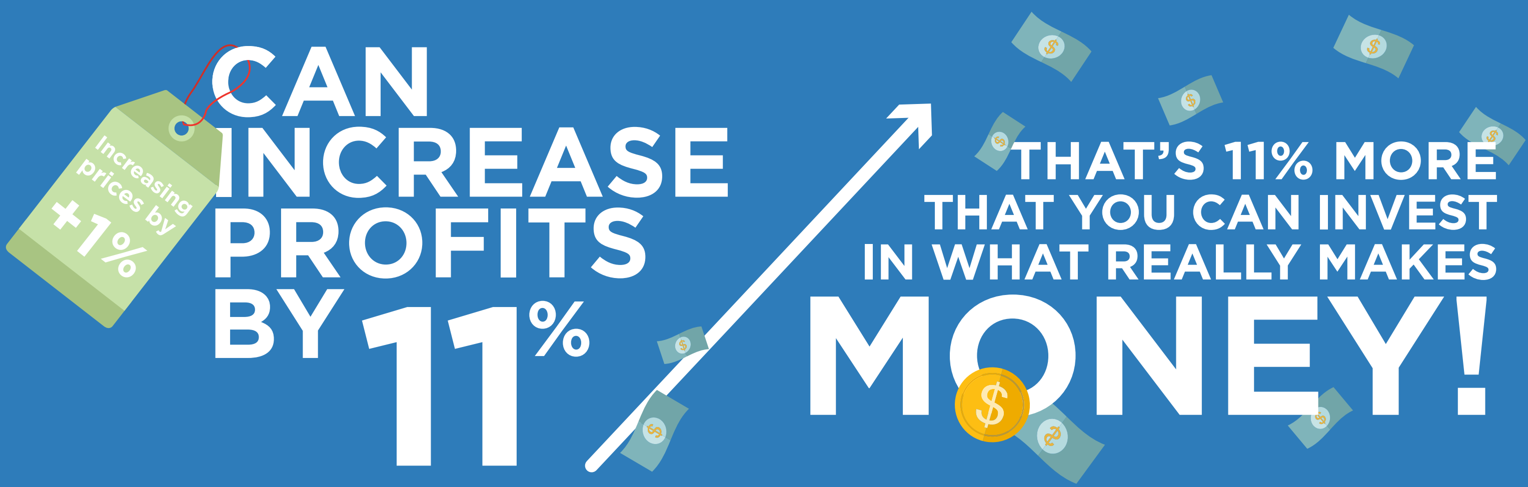
SECTION FOUR

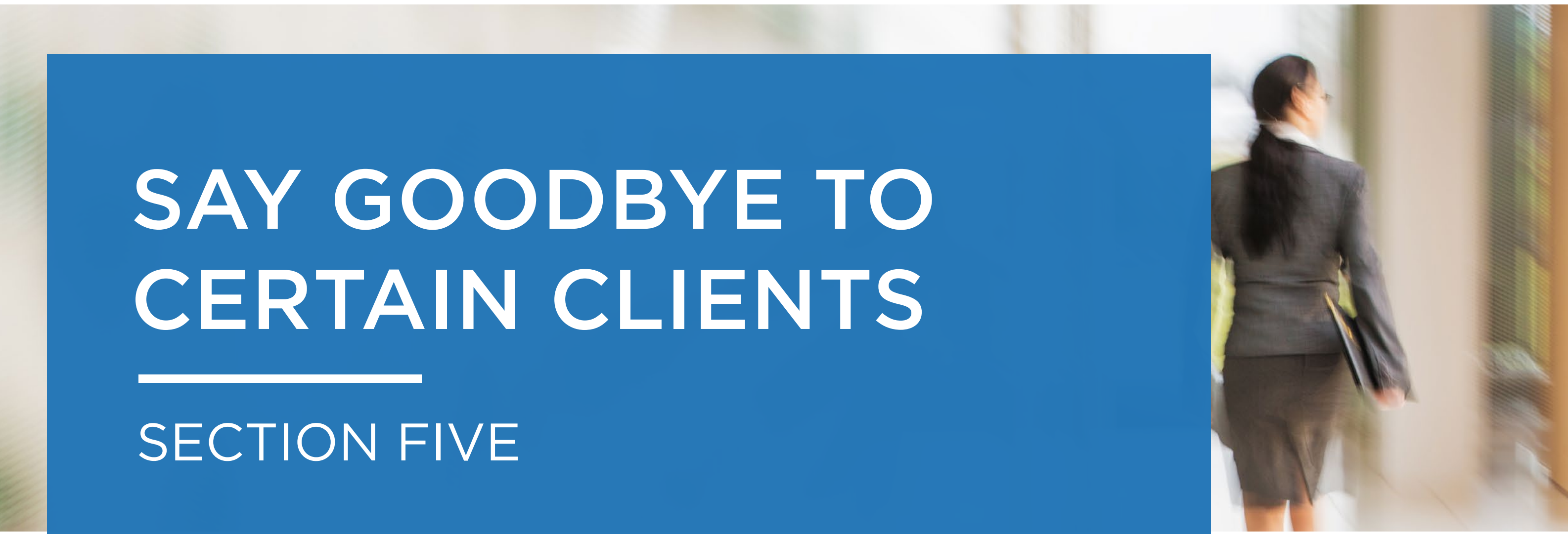
If projects run over budget on a consistent basis, chances are that you're either underestimating or undercharging.

Raising prices may sound scary and counter-intuitive. What if the firm loses clients? What if you're no longer competitively priced?

Too many firms fear that price increases will have a negative impact on business when, in fact, the opposite is true. According to McKinsey & Co., a price increase can generate more profit than the same increase in volume or a similar decrease in variable or fixed costs. In fact, research illustrates that raising prices by 1% can increase operating profits by 11%.

If projects run over budget on a consistent basis, chances are that you're either underestimating or undercharging. The only way to determine if a price increase is viable is to have visibility into the costs associated with specific projects or tasks to help identify the heart of the problem. Once you understand where there's room for improvement, you can comfortably raise prices (based on historical project information rather than gut instinct) and see an immediate impact. Businesses would also do well to track and manage project and tasks in real-time to measure deviations from hours and budget and start those conversations around price increases immediately for maximum impact. ▪





SAY GOODBYE TO CERTAIN CLIENTS

SECTION FIVE

Let’s be real - some clients just don’t come out on the positive side of a margin analysis.

Just as not all firms or employees are created equal, it must also be noted that not all clients are helpful when it comes to profit margins. You may notice over time that some clients have a tendency to be repeat offenders when it comes to scope creep, paying their bills late, or costing more than they are worth. With visibility into profitability by client, you can ascertain if certain clients should be set loose.

If that prospect sounds scary, consider the ways in which you could reinvest that time, money, and effort into new clients who aren’t low-margin, don’t cut into your profits, and cause fewer headaches. Bloomberg suggests firing 20% of your low-profitability customers because your resources and newfound capacity can be applied to more profitable clients and better work.

By conducting a “margin analysis” of your customers, you’ll get a sense of which are profitable and which are holding you back. You may find that you can lighten the load on your employees and simultaneously increase profit margins by cutting out some of the “fat.” ▪

> “You may notice over time that some clients have a tendency to be repeat offenders when it comes to scope creep, paying their bills late, or costing more than they are worth.”

CONCLUSION

Understanding where your business makes and loses money is critical. Only with visibility into your project resources, costs, schedules, outcomes, and clients can you make the changes required to improve your project profit margins. Your business will be healthier in the long run and allow you to discover consistent, measurable, and predictable financial success. ▪

About Replicon

Replicon, the Time Intelligence™ company, has over 20 years of industry leadership and is pioneering a new approach to time management. Time Intelligence elevates time as a strategic asset within an organization, to improve operational productivity, performance, and profitability.

Replicon's Time Intelligence Platform offers solutions for global time and gross pay compliance, enterprise time management for ERP, professional services automation, and an SDK for continued development - expanding the company's award-winning portfolio of cloud-based products, including complete solution sets for client billing, project costing, and time and attendance.

Replicon supports thousands of customers across 70 countries, with over 400 employees around the globe including the United States, Canada, India, Australia, and the United Kingdom.

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