3 steps to get actionable financial metrics for consulting firms

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Today's consulting
organizations

need to benchmark financial and operational data to improve continuously, drive growth, and remain competitive.

Identifying and evaluating available data and using it to define actionable KPIs can be a challenge. Especially as priorities can shift quickly and the target keeps moving. Being able to pull it off demands not only the right skills but also an agile technology infrastructure.

Firms that don't pay close attention to these elements often find forecasting, adjusting, and strategizing difficult — to the detriment of their success and client satisfaction.

This Ebook outlines core metrics such as cash flow, utilization, write-offs, and project profit and the role of technology in optimizing operations.

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Step 1:
Build the financial infrastructure for sustainable growth

Before you can identify the best metrics for your business, you must ensure that the foundations are in place.

For example:

- How do you set up your general ledger?

- How do you structure your business regarding departments, cost centers, regions, etc.?

- Are there different tax entities?

- Are you going to do consolidations?

Spending time upfront to figure out exactly **how you want to structure things** will save you headaches in the long run.

Especially **growing companies** struggle with this. Metrics that seem sufficient initially may not be detailed enough after a period of rapid growth.

> "If you don't classify it, it's hard to report on it later on. Think about where your company is headed geographically, with service offerings, with organizational structure, etc. and classify this data now so you can make data-driven decisions on this later on."
>
> **— Tania Zieja, CFO, Halloran Consulting**

Investing in your financial infrastructure means investing in being a better business. That's why it's critical to take the implementation of a financial system seriously. Don't just recreate your old processes in a new system.

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Step 2:
Get actionable KPIs that your team can monitor

How do you measure project profit today?

Are your projects repeatable, cookie-cutter, or specialized and different for every customer?

If your tasks are repetitive and costs don't fluctuate, you probably know what a project will cost you and what to bill. But no two clients are the same, so for most professional service companies, even repetitive projects tend not to be the same. That means your costs and profits aren't the same either.

What are the right metrics to track?

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Step 2: Get actionable KPIs that your team can monitor

Project costs

The only way to track that effectiveness is to track your time. Even if you don't bill by time, it's crucial to understand how much time client engagements cost you.

Once you're able to break down how much you spend on a client, you might find that big clients that generate a lot of revenue might end up costing you just as much:

> "One of the common assumptions we see is a dependency of consulting firms on their top clients. People think that because they're giving you a big check, they are the most valuable clients. But the reality may be that they're in your team's ear 24/7, and the time spent on them is just eating away at your overall costs. It's hard to think of making up a big customer in the aggregate, but it might sometimes be the better route."
>
> **— Brian Siefkes, Sr. Director, Professional Services Vertical Sage Intacct**

Our tip:
Make sure that you've got the ability to bucket your costs and evaluate your clients in detail and make use of data analytics so that you can have that discussion.

You don't have to drop the client. But having the data arms you with reasons to raise prices or limit support hours. If you're able to put the audit trail in front of your clients, you will likely be able to get concessions.

Utilization

Utilization is considered one of the most critical metrics, but it isn't the only one that matters.

Tania Zieja, CFO at Halloran Consulting recalls how the Covid-19 pandemic has changed Halloran's perspective on utilization.

> "The pandemic changed the way many of us work. Since many people went from having a commute to the business office to a commute to their home office, people were spending more time working but not all of that time was billable. The non-billable time was getting lost and we were losing sight of what it really took to maintain fresh industry perspectives and skillsets, to land a client, to keep a client happy, or to expand business within an existing client.
>
> We were also hearing that our team members were really busy but just the utilization KPI alone wasn't telling the whole story. By doing a pilot program of tracking non-billable time, we were able to see what day to day activities were important to our staff. We found that they were finding ways to keep their skills sharp by attending virtual professional development seminars and they were finding new ways to do business development that didn't involve onsite client visits. This data was insightful and lead us to make some internal changes to support the ways our employees wanted to work."
>
> **— Tania Zieja, CFO, Halloran Consulting**

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Step 2: Get actionable KPIs that your team can monitor

Project margin

While utilization is very focused on individuals, project margins are focused on teams.

> "What I really encourage all of the employees to do is to record all of their time, and it's up to the project manager to determine if it's truly billable or not."
>
> **— Tania Zieja, CFO, Halloran Consulting**

Billing cycle

How long does it take for your customers to pay?
How quickly are you getting invoices out?
How much work has already been completed but your firm hasn't been paid for it yet?

One way to keep billing top-of-mind for your team is to look at your financial exposure.

Our tip:
Compare your accounts receivable balance and work in process balance against the overall contract.

Contact value = accounts receivable + work in progress

Set thresholds on the ratio of work paid to work in progress. It's a good way to keep on top of your financial health and can improve cash flow by helping with collections.

Write-offs

While project profit is crucial, project write-offs are also essential to pay attention to. Many finance teams don't quite recognize the importance of write-offs. In fact, they might even tell their teams to not even enter time for it because they're not going to bill the client anyway. But if it's not tracked, it becomes invisible. Essentially, it becomes revenue that leaks out the door.

> "Even if it doesn't seem to be a big deal, there can be ripple effects. You don't enter time because you won't bill for it. Then you have revenue loss, and your utilization number goes down. Cashflow decreases because you don't get paid as much. And as you bid on your next project, you'll look back on the effort to get the previous one done, and you'll bid based on false data. Suddenly you're caught in a cycle of unprofitable projects."
>
> **— Brian Siefkes, Sr. Director, Professional Services Vertical, Sage Intacct**

Our tip:
While you don't want to have write-offs, you should use them as your tool if you are expending more cost than you're going to try to recoup. You obviously want your write-offs to be low, but if you don't bill for the time, you still need to track costs against your job. And when the time comes to invoice to your client, you have the data to show your clients how much time you spent on different aspects of the project. Even if you're not going to bill for all of it, you can still show your clients the time spent.

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Step 3:
Build a culture of financial responsibility

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To engage your senior leadership more, you can recruit them to help onboard more junior consultants and project managers. That way, junior members can learn from the best. For the seniors, it can be a feather in the cap, but it also helps them to have more motivation to adhere to some of the best practices you're trying to promote.

Create a mentorship program

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Daily time sheets

Best-in-class consulting firms like Halloran Consulting require daily timesheet submissions.

Switching to a daily routine allows Zieja to understand what is going on at the firm date to date and be a proactive leader. She also says that timesheets must be bought into right from the top down to get that data in daily.

With the way Halloran set up their system, they reconcile their data nightly and expect every single person in the company to look at the dashboards regularly.

"When we were doing weekly timesheet submissions, we were losing accurate data due to the time lag between when the worked was performed and when the timesheet was submitted. More often than not, we were actually underbilling our clients because all of the meetings were being recorded in the timesheets but the typical back and forth emails or impromptu brainstorming session were being forgotten about since these were not on people's calendars to look back on when they were filling out their timesheets. Also, we couldn't drive real-time data-driven decisions with week old data. We were unfortunately driving decisions reactively and that's not best practice when running a consulting firm. Daily timesheet submission was an adjustment, but the integrity of the data made it worthwhile and now it is simply part of everyone's daily routine.

— Tania Zieja, CFO, Halloran Consulting

Step 3: Build a culture of financial responsibility

Develop business acumen across the firm

Tania also says that education has been vital for Halloran.

> "Not everyone has to have a finance degree to understand business acumen. This is where organizations with infrastructure departments like finance, accounting, HR, learning and development, etc. can lean in to teach people what they need to know in regards to business acumen. We offer monthly office hours where people come to learn about different aspects of business acumen, and we offer trainings like Finance 101. It's a way to teach people about how the business makes money, what KPI's are being looked at, and what those KPI's mean. If done well, it's also a safe place for people to ask questions about business acumen that they many not want to ask in front of their managers."
>
> **— Tania Zieja, CFO, Halloran Consulting**

Answering their questions allows employees at Halloran to understand their true impact and the value of entering their time daily.

Don't be afraid to ask for your money

Financial responsibility goes beyond tracking time and understanding KPIs. Once your team enters time daily and project leads look at financial reports, the invoicing process becomes much smoother. Because everyone is up to speed, there is less of a need to adjust and make changes, which ultimately means that the invoice reaches your customer sooner.

That's not always easy for a professional services organization because they're selling time. That means dealing with time sheets and expense reports, depending on employee inputs.

> "The more proactive you can be going into the month-end close, the more time you'll have to convert what you're selling into cash. As soon as an invoice moves past the 30-day mark, we're reaching out to our clients to make sure we have the right billing contact and that there aren't any questions about the invoice. A simple outreach like this has made a huge impact to our cash flow.
>
> **— Tania Zieja, CFO, Halloran Consulting**

Even if clients have trouble paying, there's always something that can be done. But you also must show the people you're working with that you have a quality product delivered, and therefore you should get paid for your services.
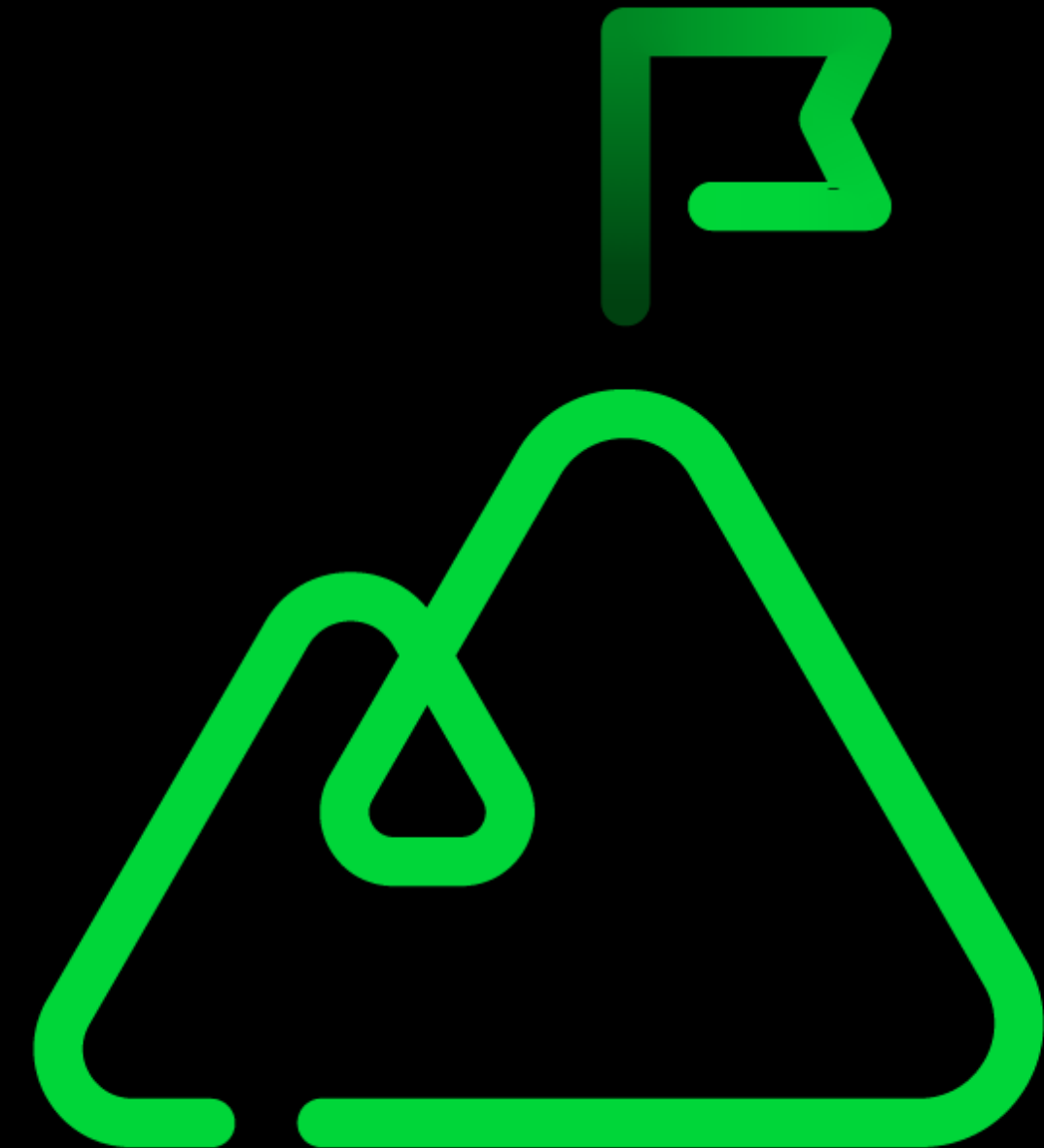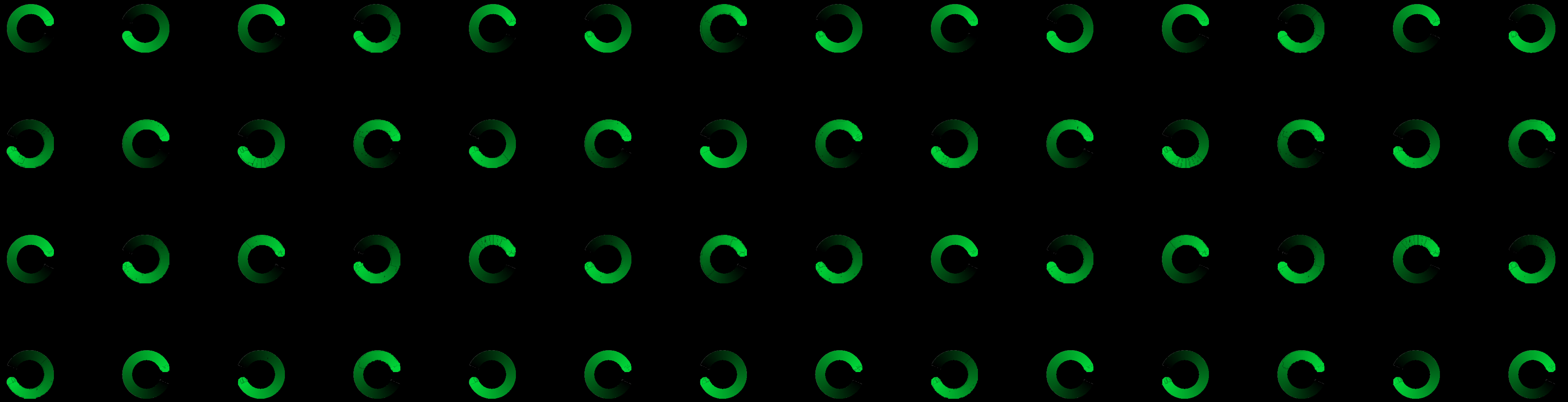
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How our technology can help you

Whether you're trying to get a better handle on your project financial management and metrics, or improve your cash flow, utilization, write- offs, or project profit, **we can help.**

With **Sage Intacct**, you can **optimize your operations** by providing real- time data and **complete visibility**, **automating tedious tasks**, including time entry, and it even helps you by spotting accounting errors automatically.

> **Learn how our technology can supports consulting firms**

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Take a product tour today

And discover how Sage Intacct can help your company achieve the right outcomes for your business.