How to boost project margins

The ultimate guide

SUMMARY

Manage your profitability

How can you improve your project margins?

01. How to supervise your profitability?

Improving project profitability is first and foremost a matter of visibility and of accountability. Project managers must be encouraged to manage the margins of their projects more efficiently. This can only be achieved with a global visibility of the performance, as well as a notification system built to alert you whenever a project might exceed the budget.

Project costs need to be tracked and has to include the financial cost of your employees' time on a project, subcontracting and product fees, as well as costs that cannot be reinvoiced, because they also have an impact on margins. The profitability of a project will face different challenges, depending on the type of billing.

For example, when invoicing on a time-spent basis, it's important that the project's turnover only takes into account the days invoiced, rather than the entire production run. Fixed-price invoicing needs to be closely monitored, and should take into account the remaining work to be done.

02. Anticipate project margins

A better visibility on project margins will create an opportunity for you to take actions before deviations become irrecoverable. When this discipline is shared by all employees, it can significantly improve the performance of the entire business.

It all starts with the systematic definition of a project budget that includes :

- estimated time spent by in-house staff
- subcontracting related to the project
- any additional purchases
- non-billable expenses, such as traveling and catering

Once the budget has been defined, the project manager must regularly update the remaining workload on the project. This way, the difference between the budget and the latest estimate is clearly indicated.

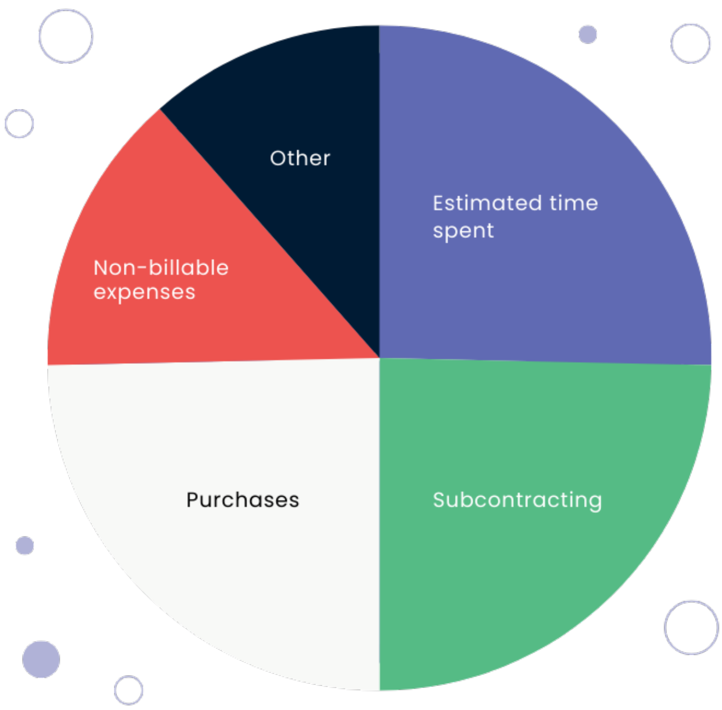
Time and materials

There is less risk of deviating from the set margin, as the work produced is billed. Except if :

- Not all the days worked are billed
- The expenses and purchases related to the project are not anticipated

Fixed-price

- The stakes are high: a goal is set from the beginning, and those in charge must ensure the responsibility of its success
- Profitability monitoring is more crucial in a fixed-price project



In both cases, you need to set the initial project budget on a provisional estimate that includes :

- the cost of staff's time spent on the project
- subcontractors and products fees
- expenses that cannot be re-billed
- regular comparisons between this budget and the landing calculation, which adds up actual and forecast figures

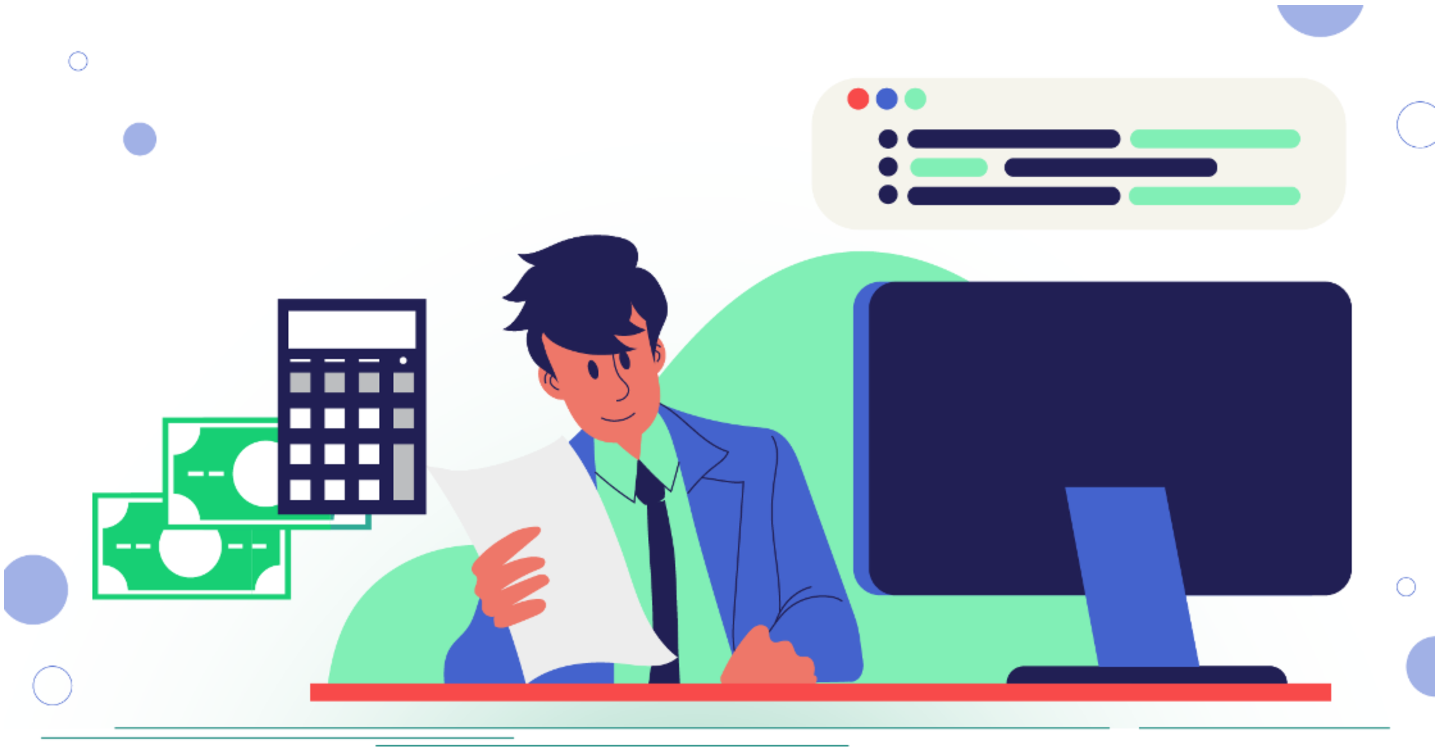
During the course of the project, it is important to regularly compare the last estimate of the project margin with what was initially planned. Last estimate: calculation of the margin at the end of the project, taking into account what has already been done and what remains to be done. TThis approach keeps you grounded on project's health, and you will be able to anticipate any budget deviation right on time.

What actions can be taken to improve a project's margin before it's too late?

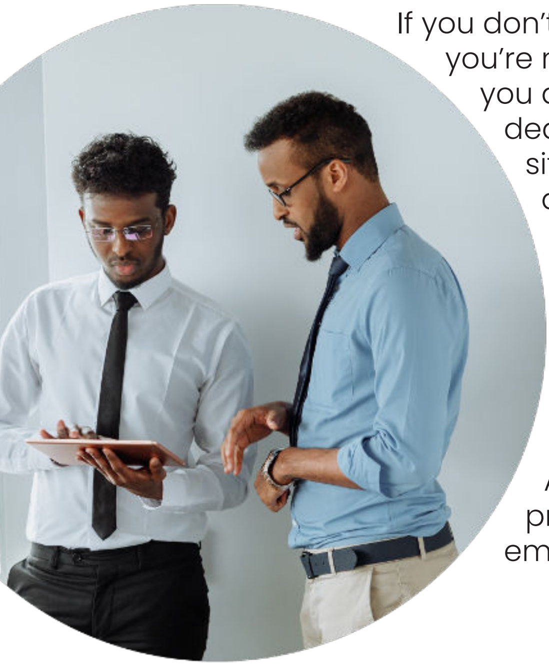
1. Negotiate with the customer: were the specifications imprecise enough to cause overload work? You may still have time to ask the customer for more time.
2. Readjusting the junior and senior ratio of your staffing helps improving the margin. Less senior employees helps t reallocating the workload to junior profiles, who are just as competent to carry out some of the same tasks.

Ask yourself :

- Is the workload forecast of my project up to date?
- Where do I land compared to my goal?
- Does the margin includes all of the project's costs?



03. Simplify management with a dedicated tool



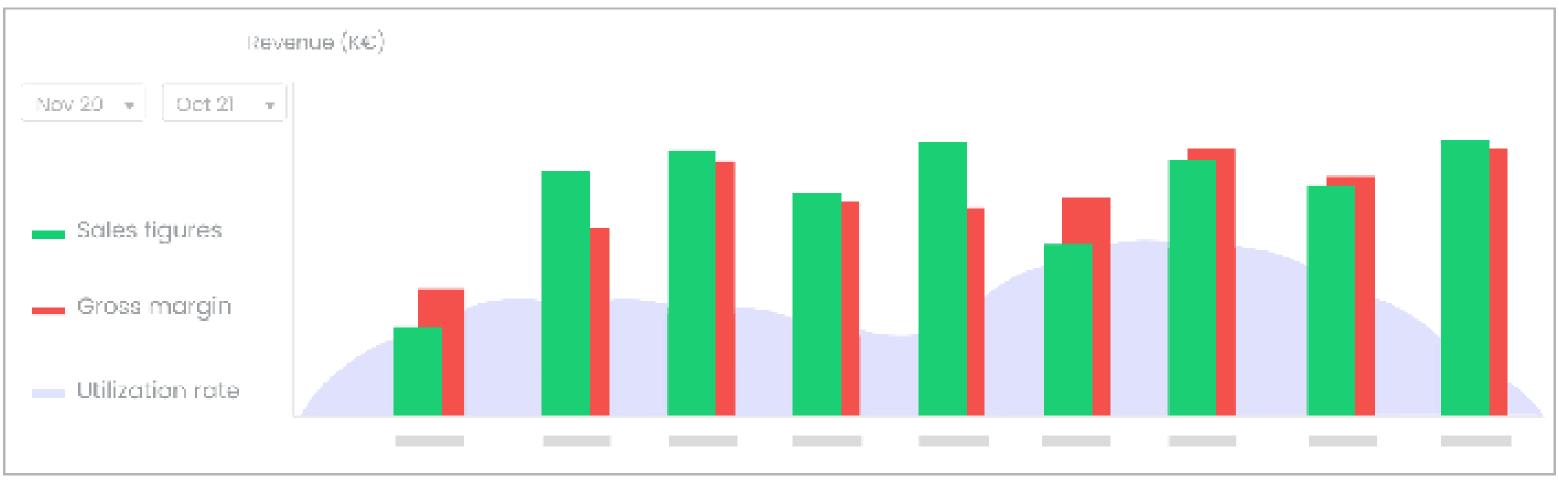
If you don't have real-time visibility on your project margins, and if you're not notified when you deviate from your objectives, it means you are not using the right tools. Managing your projects with a dedicated solution gives you a complete visibility on the current situation and your estimations, so you can better anticipate and react to any deviations in project costs.

A fitted tool will automate any calculation you need and will grant you a global visibility of what is happening in real time. In addition, you have greater control over information access: project managers can access their projects and lead their goals to success.

An integrated solution or a tool that let you manage all the projects' costs is your key to success : margin management empowers your vision on net margins.

Quickly improve your profitability by tracking past and future utilization rates for each employee, team, entity or at consolidated level. It's easy to identify capacity problems and to anticipate the actions needed to improve your profitability ahead of time.

- Gross margins
- Net margins
- Details of project costs
- Consolidation by team or division
- Income statements



Features that make control easier :

- Add fees through OCR technology
- Analysis and dashboards
- Details of time spent on tasks
- Time-based cost calculation

What's in it for you :

- Accountability of project mana-gers for achieving objectives
- Greater visibility on performance
- Improving project margins
- Data reliability

04. Gains to be expected from better management

When empowered, the employees in charge of project workloads are more closely in touch with forecast performance, and are encouraged to stay within or even exceed their margin targets. Profitability will automatically increase.

Tracking grants you a better understanding of where the variances come from, and which activities regularly impact margins. This visibility makes it possible to readjust the pricing to sell projects more effectively.

Last but not least, it enables you to project your future sales and margins far more accurately, and ensure that you won't have any cash flow problems in the comming periods.

Track the best-performing indicators

01. Margin at Completion

The margin at completion is the final forecasted margin of a project. It takes into account the costs already incurred and the remaining forecasted costs of the project.

What is it?

- Total projected sales - past costs - future costs

How to track it ?

- Project progress re-estimation
- Forecasting future costs

Recommendations

Conduct regular project reviews to identify deviations.

Levers to improve project margins :

- Reorganize staffing with less senior employees
- Reduce planned travel expenses
- Renegotiate with the customer

02. Unbilled Completed Production

Unbilled completed production refers to the difference between what could be billed because it has been completed, and what has already been billed.

Why it matters

- To know the total amount of projects that could be billed to date and recovered in cash in the short term
- To ensure that there are no blatant billing over-sights to maintain a fa-vorable (WCR) Working Capital Requirement

How to track it?

- Ideally, with a solution that calculates actual sales and compares them with billed sales
- The calculation of sales will vary according to the sales recognition methodology used

Recommandations

You can set up manual tracking, which can be done in Excel, or choose to use a solution that integrates both activity tracking and invoicing. In this case, the calcula-tions will be automatic

03. Utilization rate (or TACE)

The utilization rate, or TACE, to ensure that teams spend enough time on revenue-generating projects (whether billable or chargeable = revenue-generating).

The formula

- (Time spent on billable [chargeable] projects) / (Total time available [excluding vacations])

Track this indicator

- Use activity tracking software (CRA) to allocate time to all activity categories
- Provide consolidated reporting

Recommendations

Define objectives by profile type (a junior will spend much more time on chargeable projects than a CEO)
Keep an eye on TACE forecasts, for better business management

04. Commercial pipeline

The sales pipeline displays the forecast order level, balanced or not according to the chances of success.

Why it matters

The financial forecast is made up of projects sold and those still in the pre-sales phase. The level of the sales pipeline defines sales for future periods.

How to track it?

Centralize all opportunities and assign them a percentage of chance of success to weigh them. Calculate a total for each business unit or on a global scale.

Recommandations

- Ideally, the margin is also calculated to obtain a margin forecast
- If possible, the dates of the projects allow the spreading of the forecasted revenue

05. Actual and forecast sales

Sales achieved on projects, and forecast sales based on planning

What is it?

The percentage of completion method allows sales to be recognized in the income statement according to the percentage of completion:

- Percentage of completion = (% of costs allocated to the project) / (total costs allocated to the project)
- Completion method: sales are recognized only by the completion of the project

Track this indicator

It's important to monitor sales in real time, not only to analyze actual results but also to anticipate any risks in relation to forecast objectives.

When you have a single solution to manage previous results and the forecast, you can calculate progress on projects by taking into account project progress in future periods.

Recommendations

Create «tags» to allocate sales to a business unit or a division, enabling more precise reporting and simpler monitoring of the objectives.
Anticipate sales forecasts to try and accelerate the start-up of certain projects if necessary.

06. Business profitability monitoring

Monitor project profitability and internal project costs to ensure that your activity generates the expected results.

How to start ?

The first step is to establish precise cost tracking for each project:

- Team costs
- Subcontracting costs
- Expenses and other purchases

Add sales tracking by project afterwards (for internal projects, there are none).

Why track this indicator?

The goal of a service business is to make profits. It is essential to set up a system that evaluates how much profit is being made, which projects are profitable, and how much profit is generated among the different teams.

Recommendations

All costs must be taken into account: time spent by in-house staff, subcontracting, purchased products, costs that cannot be re-invoiced to the customer, etc.
It must be easy to compare an up-to-date estimate of profitability with the initial target, so that any necessary action can be taken as soon as possible.

Improve your sales performance

01. Gain exposure and analyze your global sales performance

Track your conversion rates

You need to have a complete, real-time view of your company's overall sales performance. This view will enable you to analyze the various conversion rates:

- What percentage of these prospects resulted in a lead expressing potential interest in your service?
- How many proposals were sent in during the period, and how many were accepted?
- And finally, what is the cost of your business?

Analyze your sales pipeline

- Estimate the potential of each opportunity

Each sales representative must be able to enter a percentage of success for each opportunity in the CRM. This estimation should make it possible to forecast sales and margins.

- Compare it with your objectives

A classic CRM does not provide the possibility to create a workloadplan associated with opportunities (including profiles), the number of days, and possibly each daily rates. To better anticipate margins during negotiation phases, it is best to use a CRM dedicated to a service activity. It will give you the anticipated margins for each opportunity and the overall view on the pipeline.

Determine your return on investment (ROI)

You need to be able to measure these indicators for each opportunity:

- acquisition cost
- time spent

You will be able to rigorously and accurately determine the return on inverstement on your sales process afterwards.

This will also enable you to make a critical analysis of which targets have worked the best,

and those who had been less

02. Optimize your sales force's performance

Analyze performance for each salesperson

In addition to a general analysis of the sales process, it is also advisable to analyze the performance of your sales people. Why should you do this? Because sales success has a lot to do with execution, how well each salesperson is organized, meets deadlines, carries out tasks and follows up on prospects.

You can highlight where they perform best, where they achieve the highest conversion rates, but also where they deliver the weakest conversion rates.

- Which stages are most beneficial to them?
- Which ones do they need to improve on?

You can encourage them to take training courses to practice and develop their skills in these areas.

Adopt productive competition

We can't say it often enough, but it's essential to encourage your sales people to boost their performance. Motivation is key.

Some will be more sensitive to various rewards and pay bonuses.

Others may prove to be all the more effective as soon as you set up a comparative analysis of each individual's results. On one hand, you learn more about your employees and your top performers; on the other, you motivate them to outperform their colleagues and stay in the race!

In short, don't neglect performance visibility, because it creates productive emulation!

Upgrade your cash flow

Cash is king!

Cash management is the lifeblood of your company's development. By gaining visibility on cash inflows and outflows, you can optimize your company's financial balance and make the right investment decisions. So what steps should you follow in order to optimize your cash flow?

01.

Speed up your collections

Collect customer payments as early as possible, and pay suppliers as late as possible. This adage, which is the basis of good management, implies effective cash management.

Which customer invoices are overdue? Which reminders should be prioritized?

Effective management of your accounts receivable is essential. You need to have a clear view of the unpaid invoices, so you can generate automatic reminders for your customers, and classify them according to the number of days overdue. The longer you wait, the more your chances of recovering the receivable statistically diminish.

02.

Rethink the costs within your organization

Improving your cash flow also means better management of your expenses.

It is advisable to set up an effective expense control system: establishing an expense request process, creating expense validation workflows, enabling validation by project managers in addition to management control, this process helps to better assess expenses. In addition, by having a clear view of the nature of these expenses, you can easily identify those that can be re-invoiced to your customers.

These are charges which, by definition, are neutral for your margin. Therefore, you have to make sure they've been billed to customer to avoid losing money.

03.

Keep an eye on the fore-cast in real time

You need to know your projected cash inflows and outflows at all times. Depending on your projects, you may be invoiced on a time-spent basis, or on a fixed-price basis with schedules. In both cases, software programs enable you to efficiently calculate the associated cash inflows and outflows.

What happens when your invoicing depends on a deliverable?

In this particular case, you need to be able to track payment schedules in order to easily generate invoices. In addition, the calculation must enable you to take into account the specific payment terms of each project, to precisely calculate future receipts.

What about outings?

Your outflows can be fixed, linked to salaries or rent for example, or one-off, linked to purchases. Ideally, you record your supplier invoices with a forecast payment date to consolidate all outflows over the periods, and have a precise idea of the forecast cash outflow for each month.
If your software allows it, you can even set reminders to pay your suppliers on the exact payment deadline.

This reporting will enable you to detect any deterioration in the company's cash position at an early stage. This will enable you to react to any critical situation by implementing the necessary corrective actions to restore the situation.

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Would you like to find out how Stafiz can help you improve your efficiency and performance?

You can contact us by e-mail

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