E-book

Billability can damage your health

The way to valuable KPIs for growth

Teamleader

Billability is dead. Long live billability.

Billability: it's the word on everyone's lips, but no one has it completely under control. Among medium and large creative agencies and consultancy players, billability provokes a huge range of reactions, from cold sweat to untrammelled desire.

An agency's goal, after all, is always to work as efficiently as possible and build a sustainable business. Whether your aim is to maximise your profits and reinvest to create added value for shareholders, or to prepare for the sale or merger of your company, returns are a key goal of your business operations. And part of that is billability – in other words, the profitability of your team.

But information on and insights into billability are often contradictory. As a result, everyone calculates billability in their own way, making figures difficult to compare. What is more, there are still several blind spots: billability can give a misleading image of your team and it doesn't tell you anything at all about your company's margins and returns. **So evaluating on the basis of billability alone can seriously damage your company's health.**

In this e-book, we will introduce two KPIs that really do give you an insight into your efficiency: 'average yield per hour' and 'performance'. They create a more complete picture of how you can streamline your processes, optimally use your staff, search for the perfect customers and, consequently, how to make your organisation grow. We will take a closer look at the calculations before zooming back out again. By the end, you will have a better overview of which metrics help you build a successful business.

Jeroen De Wit,
CEO Teamleader

Teamleader

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Chapter 1:
Why is billability crucial?

"From marketing and digital agencies to consultancy bureaus: for almost all service companies, time registration is 'part of the job'. Why? It's how you measure your organisation's billability. But that's just the start."

—

Jeroen De Wit, CEO Teamleader

What is billability?

Wikipedia defines billability as 'the state or condition of being billable'. That doesn't tell us much. The more common – and more useful – definition of billability is **'the percentage of billed hours versus total hours'.**

From people to process

Back in the day, billability started with employees: has so-and-so worked enough hours? Time registration – distinguishing between billable and non-billable hours – answers that question.

Billability in the early days: employee by employee

e.g.

Charlotte	Billable	Not billable	Billability
week 1	30 hours	10 hours	**75%**
week 2	28 hours	12 hours	**70%**
week 3	32 hours	8 hours	**80%**
week 4	24 hours	16 hours	**60%**
			71,25%

e.g.

Nico	Billable	Not billable	Billability
week 1	30 hours	10 hours	75%
week 2	28 hours	16 hours	60%
week 3	32 hours	18 hours	55%
week 4	24 hours	12 hours	70%
			65%

Rosie	Billable	Not billable	Billability
week 1	32 hours	8 hours	**80%**
week 2	36 hours	4 hours	**90%**
week 3	38 hours	2 hours	**95%**
week 4	34 hours	6 hours	**85%**
			87,5%

To cut a long story short: at 71.25%, Charlotte's billability is a lot higher than Nico's. But at 87.5%, Rosie clearly has the highest billability. You might deduce from this that Rosie is the most valuable to the company. More than a third of what Nico does is 'wasted time'. In **chapter 2** you will find out why this line of reasoning may be wrong.

It will gradually become clear that you can also use billability to make other analyses. How is billability evolving in your organisation? What billability rate should you be aiming for to achieve a certain profit margin? As time went by, the focus shifted from employee level to organisational level. The term billability fell out of fashion, and new KPIs emerged for a stronger analysis.

Chapter 2:

Three reasons why it's a bad idea to fixate on billability

"Although companies are wild about billability, you can't use it to evaluate your organisation and staff. There are three reasons for that."

—

Sammy Colson, co-founder of Yadera

1. Comparing apples and oranges

Different organisations calculate billability in different ways: based on the number of hours registered, gross capacity or net capacity (not including holidays and sick leave).

$$\frac{\text{Number of billable hours}}{\text{total number of hours registered}}$$

Example: Rosie works 40 hours, of which 32 are billable. Her billability is **80%**.

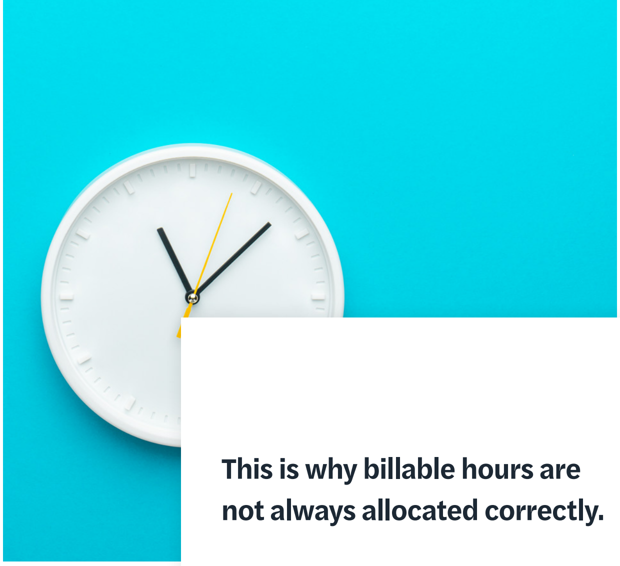
$$\frac{\text{number of billable hours}}{\text{gross capacity (the number of hours someone could have worked)}}$$

Example: Rosie takes one day of sick leave. On the remaining days she works 32 hours, of which 28 are billable. Her billability is **70%** (28 billable hours divided by 40 hours).

$$\frac{\text{number of billable hours}}{\text{net capacity}}$$

In this scenario, the day of sick leave is not included in the capacity, and as a result the billability amounts to **87,5%** (28 billable hours divided by 32 hours).

Since there is no unambiguous calculation method, you cannot benchmark the billability of different branches and organisations. Nevertheless, this is the query we get from companies most often.



2. A misleading picture

e.g.

Imagine your company is selling a campaign that takes 10 days' work. Charlotte works on the project for 10 days, so her billability is 100%. However, she doesn't get the work finished within that period, so Nico has to lend a hand. He works on the project for 2 days. His billability for this project is 0%, because the 10 billable days had already been allocated to Charlotte. Yet he was the one who successfully completed the project.

The opposite scenario is also possible. Imagine Charlotte gets the job done in 8 days instead of 10. Her billability is 100%. But what about the two remaining days? Aren't they allocated to anybody? Isn't the fact that Charlotte's hard work left 2 days' extra margin registered anywhere? Billability does not solve these issues.

This is why billable hours are not always allocated correctly.

Employees who help others out may reap a low billability. Conversely, employees are not always allocated the added value they have actually generated. This may lead to incorrect evaluations of employees, projects and customers.

Billability does not show your margins and returns. It only tells you how many billable hours you have worked. These are sufficient reasons to drop the billability fetish.

3. Blind spots

e.g.

Imagine you quote 6,000 euros for the 10-day project. Rose works on it for 10 days and only has billable hours. That is an ideal scenario, though improbable. However, Rosie is a senior profile and costs your organisation 600 euros per day. Consequently, her billability is 100%, but the margin for your business is 0%.

You could also allocate a junior to this project for 12 days. They cost 300 euros per day. You are left with a good margin (2,400 euro), but the billability is lower (83%).

Chapter 3:

Two KPIs that really do reflect efficiency

"When we talk to companies, we always give them two KPIs: average yield per hour and performance. These indicators do show you what is going well in your organisation and what is not."

—

Sammy Colson, co-founder of Yadera

Average yield per hour: what are your strengths?

The average yield or margin per hour shows where the yields and losses are to be found in your company and where you need to step in.

$$\frac{\text{billable value per hour (a)}}{\text{cost per hour (b)}}$$

Billable value per hour

(a): calculate the billable value per hour by dividing the available budget by the number of hours worked on projects.

e.g. Rosie works on 2 projects in January. She also creates a new corporate presentation for your organisation, which takes 1 day. This internal project is non-billable, making the billable value per hour for this work 0 euros. Rosie's work in January represented 71.43 billable euros per hour.

	Project 1	Project 2	Non-billable	TOTAAL
Budget	€ 6000	€ 6000	€ 0	€ 12.000
Hours worked	8 days/64 hours	12 days/96 hours	1 day/8 hours	21 days/168 hours
Billable value per hour	€ 93.75/hour (6000 / 64)	€ 62.50/hour (6000 / 96)	€ 0/hour (0 / 8)	**€ 71.43/hour** (12.000 / 168)

Cost per hour

(b): for the cost per hour, you add up **all the costs of a given employee.**

e.g. Rosie's gross monthly pay is 5,500 euros. Add to this the specific costs to the employer (such as an expense allowance, phone subscription and fringe benefits, but also a software licence that Rosie needs).

Lastly, calculate the general costs.* These are your general operating costs – such as the lease, electricity and internet – divided by the number of employees. In this example, this is 3,000 euros. So Rosie's individual cost is 9,100 euros. Divide that by the net capacity (billable and non-billable) to arrive at the cost per hour. Rosie costs your organisation 54.16 euros per hour.

Type of cost	Waarde
Pay	€ 5500
Specific employer costs	€ 600
General costs	€ 3000
Total costs	**€ 9100**
Hours per month	168
Cost per hour	**€ 54,16 (9100 / 168)**

Combine

If we put this data into the formula, it looks like this:

	Project 1	Project 2	Non-billable
Billable value per hour	€ 93,75/hour	€ 62,50/hour	€ 0/hour
Cost per hour	€ 54,16/hour		
Average margin per hour	**173%** (93,75 / 54,16)	**15%** (62,50 / 54,16)	**0%** (0 / 54,16)

In this example calculation, we see that Rosie's average yield in project 1 is 73%. In project 2 it is 15%, and for the internal project it must logically be 0%. So what conclusion should you draw from these figures? Find out in **chapter 4**.

* Do you include depreciation on a laptop as a cost? What about the cost of secretarial staff? And do you subtract holiday leave from the hours per month? It is up to you which items you do and don't include, depending on whether they have a fundamental impact on your analyses. You will find the costs and salaries on an annual basis in your accounts, under general ledger items 61 and 62. Dividing that cost by the number of employees will give you the general cost per employee per year. **There is only one golden rule: always calculate the costs and the number of hours the same way.**

Performance: are you productive or just treading water?

Clearly the number of billable hours is not the only thing that counts.
How efficiently they are used matters too. That is where the crucial KPI performance comes in:

Efficiency (a) x billable hours (b)

e.g. Imagine you sell a project for 1,000 euros, representing 10 hours' work. Nico and Rosie each spend 5 hours on it, representing a total of 10 hours and an intrinsic total value of 1,000 euros. So the efficiency is 100%.

In a similar project with the same sale price, the two of them get the work done in 7 hours, resulting in an efficiency rate of 143%. However, if they need 5 hours more than planned for another project, the efficiency will drop to 67%.

Efficiency

(a): efficiency is a measurable value that shows whether you are working faster or slower than planned, 'within or 'over' budget. It is calculated by dividing the **billed value by the real value of the same period.**

	Project 1		Project 2		Project 3	
	Time	**Value**	**Time**	**Value**	**Time**	**Value**
Budget	10 hours	€ 1000	10 hours	€ 1000	10 hours	€ 1000
Work	10 hours	€ 1000	7 hours	€ 700	15 hours	€ 1500
Efficiency	**100%** (1000 / 1000)		**143%** (1000 / 700)		**67%** (1000 / 1500)	

Billability

(b): billability is the number of billable hours compared to the net capacity (= the number of hours that someone effectively works) and gives an indication of the number of productive hours.

	Week 1	Week 2	week 3
Net capacity	40 hours	40 hours	40 hours
Billable hours	40 hours	32 hours	44 hours
Billability	**40/40 = 100%**	**32/40 = 80%**	**44/40 = 110%**

vb. Let's say Rosie works for three full weeks, with a net capacity of 40 hours per week. In the first week, she works 40 hours, all of which are billable. So billability is 100%. During week 2 she has several internal meetings, resulting in 32 billable hours and a billability of 80%. In week 3, Rosie works a lot of overtime, with a total of 44 billable hours. Her billability for that week is 110%.

Combine

If we put the two factors into the formula, the calculation for performance looks like this:

	The perfect one	Leader	Starter
Efficiency	100%	143%	67%
Billability	100%	80%	125%
Performance	**100%** (100 x 100)	**114%** (143 x 80)	**84%** (67 x 125)

In an ideal scenario, people always work perfectly within the budget and all the hours worked are billable, every single day. That means a performance of 100%. But there's no such thing as 'the perfect one', not even at agencies. Be sure to let us know if you find them!

A team leader (who leads designers, developers or copywriters, for example) usually works faster than a junior. The team leader might complete a project sold for 10 hours in 7 hours – which amounts to 143% efficiency. However this type of role usually involves more non-billable work, such as leading the team and internal consultation. This is why billability is at 80%.

If you only take billability into account, it looks as though the team leader is not very profitable. But if you combine billability with efficiency, you will see that they have a performance rate of 114%.

Things are different for a new recruit or a trainee: the 'starter' in our example. Their efficiency tends to be lower. For example, they might need 15 hours for a project sold for 10 hours. However, starters are usually also motivated to prove themselves, and often work overtime. In this example, a starter has worked 50 billable hours instead of 40. **When you combine the two factors, you arrive at a performance of 84%.**

To be able to compare, calculate both the average **yield per hour** and the **performance** for various things at various times (see chapter 4). Yadera does the maths for you. By combining time-tracking, invoicing and projects in a single tool, you can generate clear reports in a few clicks that contain valuable insights into billability **performance, average yield per hour** other KPIs at your organisation.

The Four Commandments

There are four things you need to bear in mind to calculate the two KPIs correctly.

1. **All hours spent on billable projects are always 'billable'**
   That includes non-budgeted hours.

   e.g. Imagine you are allowed to work on a project for 10 days, but you end up taking 14 days for it. You need to count those four extra days as billable hours. The same applies to all projects that will (ultimately) be invoiced.

2. Conversely **'non-billable' hours are only used for projects that are not invoiced.** That means team meetings, administration, pre-sales work, pitches and so on.

3. Every employee registers **at least the number of hours that they are contractually obliged to work.**

   e.g. If the employment contract states that a working week has 40 hours, your employees need to register at least 40 hours. Why? If someone only registers 30 hours, you can only assume that the other 10 are non-billable. However, that person might actually have been working on a project. If everyone registers all the hours they have worked, you will know exactly whether or not they are working non-billable hours.

4. Always use the **same type of capacity** in your calculations:

   - **Net capacity:** when someone is working.
   - **Gross capacity:** when someone could have been working. In other words, this includes days off for holiday or illness.

It's up to you which capacity you use, although we recommend net capacity that does not include holidays and sick days. After all, everyone has the right to a day off and may get ill from time to time. Especially if you calculate the KPIs per employee, it may come across as insensitive to include holidays and sick days. The most important thing is, whichever capacity you choose to measure your efficiency, always use the same variant.

Chapter 4:

Behind the figures

“Neat reports, colourful graphs, clear tables: KPIs are a number geek’s best friend. But calculating the indicators is only the first step. It is only by analysing the figures and working out the causes that you can make the changes you need to achieve your goals.”

—

Jeroen De Wit, CEO Teamleader

What do you measure and when?

There is a great temptation to only measure KPIs for individual employees. That’s not a good reflex, because the employee’s commitment is only one factor that influences your average yield per hour and performance. **Don’t just look at the absolute value of individual scores. Instead, pay particular attention to any fluctuations you see.**

It is even more valuable to focus on evolutions and comparisons. That is why you should calculate the KPIs per year, per quarter and per month, in various ways:

- Per project
- Per project type
- Per customer
- Per sector
- Per department
- Per employee

This will give you an insight into the types of projects that generate the most profit for you, the types of customers you flourish with, which activities (design, strategy, development or something else) are profitable or otherwise, and who should do which tasks. **On the basis of these insights, you can draw up your targets, and align your sales and other processes with them.**

What do the figures tell you and what don't they tell you?

A **low yield per hour** or **performance** may have various causes:

- **A project was sold too cheaply.** If the performance of your best employees in a project is below 100%, the workload was estimated incorrectly.
- **A customer asks for extra work**. Additional designs or applications, an extra round of feedback, a meeting that takes longer than planned: apparently minor extras soon end up taking a big bite out of your budget. That is why a project manager needs to keep a close eye on the scope of the project, ensuring it doesn't increase unless the budget follows suit.
- **Inherent to the job.** Certain roles mainly work in a pre-sales phase. For example, designers provide visual support for a pitch. A chief business development officer does prospection. They can't possibly register billable hours while they're doing those things, although they are doing exactly what they are supposed to be doing.
- **The wrong person in the wrong place.** Developers who have no experience with the tools you use, a trainee in communications who has to set up a fiendishly difficult strategy project or an office manager working on a creative campaign: sometimes employees punch above their weight.

Conversely, a **high yield per hour and performance** may expose challenges:

- **Too much on their plates.** Top ratings for billability and performance may look like a good thing, but they could also signal overwork. After all, too much overtime can lead to burnout. Don't forget motivation, the pleasure people take in their work and the atmosphere in the group either: these elements can make all the difference between a well-functioning team and a snake pit.
- **An unbalanced team.** One or two employees who score considerably higher than the rest of your team can make you vulnerable. If you lose them, it will immediately have an enormous impact on your organisation.
- **Your prices are not the standard market rates.** Your efficiency ratio is consistently higher than 100%, but what if you are bringing in fewer projects than last year? That may mean your prices are too high compared to those of your competitors.
- **Everything is fine.** It might really be that simple. In that case, the main thing is to keep your finger on the pulse and keep walking the same path.

When are benchmarks worthwhile?

The burning question on everyone's lips is: what is a good level of efficiency and average yield per hour? **Well, there is no absolute benchmark.** For example, it is impossible to compare a brand agency's activities with those of an online marketing agency or IT developer. What is more, the most important thing is to set your own goals. What do you want to achieve within the year and what targets do you need to hit to do so? **An average for the sector doesn't make much sense as the only benchmark.**

As you have found out from this e-book, it is better not to focus exclusively on billability. After all, it is just a barometer that estimates the number of billable hours. Compare it to a weather station that tells you a hurricane is coming. You can only find out if gale force winds are blowing by going outside.

Recap

Lost sight of the big picture? Here are the KPIs in a nutshell.

Average yield per hour

What is profitable and where is your organisation losing money?

$$\frac{\text{billable value per hour (a)}}{\text{cost per hour (b)}}$$

(a): the **available budget** divided by the **number of hours worked**.

(b): add up **all the costs of a specific employee**.

Performance

How efficiently are billable hours spent?

Efficiency (a) x billability (b)

(a): the **billed value** divided by **the real value** of the same period

(b): the **number of billable hours** divided by the **net capacity**

What are the takeaways from this e-book?

1. Using billability alone to guide your business **does more harm than good.**
2. The two KPIs that really will help you are **performance** and **average yield per hour.**
3. Of course you shouldn't evaluate your team **on the basis of these two quantitative KPIs alone** There are many other factors to consider.
4. Yadera gives you a **real-time insight** into these and other crucial KPIs for a successful agency.

Let's get to work! Preferably with Yadera.

Right. Now we've got that misunderstanding about billability out of the way, we can only advise you to get to work with this information and communicate transparently with your team about these KPIs. After all, that's the only way to ensure that everyone understands how well your organisation is really doing and the direction you areheading in.

Yadera helps you to tackle every aspect of work management. Our tool for marketing agencies, digital agencies and IT companies takes account of factors such as flexible time registration and retainers, and gives real-time insights into your company's profitability. So that gives you a place where you can manage your work, with support tailored to your needs and profound insights. These insights help you stay in control, but above all, they help you grow.

See you soon!

Curious to find out how Yadera works?

Request your free demo

Any questions?
Contact us at **sales@yadera.com** or **+32 9 298 06 15.**

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