How Technology Services Companies Leverage KPIs to Build Value

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Despite recent events in the technology industry as a whole, growth in technology services is expected to continue, and to be robust, as the world rapidly adopts new technologies and undertakes major transformation initiatives.

Technology services companies focused on growth are turning to business advisors to help them set performance targets, establish and track key performance indicators (KPIs) and heighten collaboration with managers across the organization to protect and promote business value.

Leveraging KPIs to Add Business Value

Measuring a business' KPIs, and periodically comparing them with similar external benchmarks, can help expand the value of the business. This process enables identifying and addressing problems to improve overall productivity. In addition, the results can present stakeholders with impressive and trustworthy performance highlights when they are included in traditional financial reporting and other required management information reports. Presenting KPIs in dashboard form can also help minimize the time required to read and understand performance reports and maximize time for applying value-adding KPI insights.

These insights can be acquired by analyzing KPIs in both quantitative and qualitative form. Quantitative KPIs are a combination of leading and lagging indicators, highlighting a company's prospective and historical performance and condition. Complementing them are qualitative KPIs, such as those characterizing subjective opinions of customers or employees, or benchmarked against an industry peer group with similar KPIs, as can often be found in reputable databases.

Assessing Sales and Growth KPI Indicators

As managers formulate optimization plans, they should explore issues of sales and growth, such as expected growth rate, whether the sales pipeline is sufficient to meet revenue goals and key sales drivers. KPIs may reveal an insufficient sales pipeline or funnel, for example, or a struggle to convert qualified leads. Root cause analysis may point to turbulence in the company's addressable market, a sales talent shortage, or a need to strengthen how marketing and sales collaborate to generate and qualify leads.

Assessing the following KPIs is key:

- Revenue growth rate, such as year-over-year (YOY) rates.
- Sales conversion rate: qualified leads resulting in sale vs. total qualified leads.
- The potential for, and probability of, sales pipeline challenges.

Assessing Billable Staff and Services KPIs

More complex are issues of billable staff and services, utilization and realization. These analyses may prompt a closer focus on: whether workload is spread across the team in an unbalanced way; whether staff is billing all client-facing time; whether to re-evaluate decisions to bill below company standards for converting work-in-progress (WIP) to accounts receivable. Discussions often reveal root causes such as staff scheduling challenges, opportunities for staff upskilling, "scope creep" in client budgets and mismanaged client billing.

Assessing the following KPIs is key:

- Utilization rate, including billable hours vs. available work hours.
- Realization rate: value of billable hours vs. amount billed.
- Average revenue per consultant.

Assessing the Organization's Financial Condition

In any economy, it's wise to investigate whether the pricing schedule can cover rising costs, if costs are contained and if working capital is cycling at a suitable pace. Equally important is knowing if the client base is diversified enough to support a sector downturn and if team size is appropriate for meeting current and future sales growth projections.

Examining a company's financial condition, revenue, profitability and cash-related KPIs may yield vital insights. These might include unexpected cash management challenges, which clients are most profitable or unsustainably "leaky buckets" of revenues and talent. Root causes could be an outsized focus on a few "squeaky wheel" clients, an outdated pricing strategy, excessive overhead given company size or complexity, a total rewards package considered uncompetitive in a tough talent market or payment terms poorly enforced with clients and vendors.

Assessing the following KPIs is key:

- Gross profit margin: project revenues less project costs vs. total project revenues.
- Net profit margin: gross profit margin less all other expenses.
- Revenue by client and project.
- Rates of revenue churn, contraction, retention and expansion.
- Rates of employee turnover and retention.
- Cash conversion cycle (CCC), including days sales outstanding (DSO) and days payables outstanding (DPO).
- Profitability by project, client, industry vertical.

Leveraging Outside Expertise to Prepare for Ongoing Success

The challenges facing the technology industry do not preclude healthy future growth for technology services companies. To maintain current value and promote enhanced business valuations, now is the time to design and deploy a KPI-based decision-support environment.

Today's managers – already focused on operations, business development, investor and stakeholder relations – are turning to experienced professionals for help in this specialized arena. Knowledgeable, objective advisors can assist technology services company leadership in enabling ongoing operational strength while preparing for a promising future in the years to come.

Contact Us

Our team of financial leaders are ready to assist you with designing or deploying a KPI-based decision-support environment. They will collaborate with you to learn your priorities and rapidly develop a solution to help you steer with confidence on your value creation journey. Please reach out to your engagement team or either of the following to begin the conversation.

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