



# SECRETS OF HIGH-PROFIT SERVICE FIRMS



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## The 7 Secrets of High-Profit Service Firms

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# What this eBook covers...

- What's really driving profit and cash flow in your professional service business (and it's not revenue)
- How you can motivate your team to drive their own performance that is aligned with YOUR goals without burning them out or losing them to bigger firms
- How you can get the critical financial insights you need to manage your business and make effective decisions each month without trawling through pages and pages of reports that make absolutely no sense
- And how you can get these insights in “real-time” without waiting months for your accountant to do your taxes before you have accurate information
- How you can end the chaos and turn your business into a well-oiled profit-making machine!

The profitability of your business is essential to its future. Revenue alone will not drive the business forward. If you want to see the vision for your company become a reality, you are going to need to be profitable.

*Here are our seven secrets to profitable business success:*



# Secret #1

## Clarify Your Vision



A common mistake we see is that business owners are not getting accurate and reliable financial information in a timely manner, if at all.

Getting an accurate picture of where your business stands right now should be your first priority.

Why is this important? Well without a really clear handle on how your business is performing, there is no way of knowing if you're doing well or not and more importantly what parts of your business are performing or under-performing. Without this information there's no way you can address the issues and make better decisions that will ultimately drive profit and cash flow in your business.

Getting regular financial information about your business is more than just printing a profit and loss report from your accounting system. I mentioned the words accurate and reliable which is crucial when analysing the financial performance of your business.

In a service-based business there are a number of factors that, when not taken into consideration, can have a significant impact on your numbers. Factors like Work in Progress, Accruals, Prepayments, Provisions all impact your current financial position. Making decisions based on incomplete or inaccurate reports can lead to disastrous consequences down the track.

Make sure your reports are prepared by a Qualified Accountant who is trained to understand these fundamental accounting principles and can deliver you accurate reports that you can rely on to make business decisions.



# Secret #2

## Track These 5 KPI's



The problem is that accountants are good at preparing the numbers but time and time again I find business owners trawling through pages and pages of profit and loss statements and balance sheets trying to understand how their business is performing...truth is this is like trying to find a needle in a haystack.

What you need to do is really understand what drives profit and cash flow in your business and then hone in on those specific areas.

There are hundreds of KPI's that you can track... but to save you the time we've narrowed it down to the 5 KPI's that will drive profit and cash flow in EVERY professional service business WITHOUT FAIL!

The following KPIs have been vital for the growth of many of our clients:

- Utilization Rate
- Average Hourly Rate Recovered
- Overheads as a % of Revenue
- Work In Progress Days
- Debtor Days

We'll look at a few of these in more detail over the next few paragraphs.



# Secret #3

## Pinpoint Utilisation Killers

Utilisation rate is a measure of your employee's productivity and, in conjunction with Average Hourly Rate recovered, are easily the biggest drivers of bottom-line profit in EVERY service-based business yet the importance of these 2 KPI's are also always the most overlooked.

Increasing your utilization rate enables you to increase revenue without hiring more staff. Different roles in your business will have utilisation rates, however most businesses can make improvements by reducing or streamlining processes and meetings that are taking time away from more productive activities.

Sometimes, a low utilization rate is because employees don't have enough productive work to do and are filling the time with other activities. If this is the case, the business needs to either increase the amount of billable work it is doing or reduce the overall number of employee hours.

The businesses that develop a very clear focus on these 2 KPI's are by far the most profitable and it's not that hard although often it requires a fundamental change in mindset and behaviour of both the business owner and their team. However once you've made the shift and have developed your performance targets around driving the right behaviours, the rest takes care of itself! (more on this in secret #7)



# Secret #4

## Know What to Charge



Whilst Utilisation Rate measures the amount of “productive” or “billable” time your team are working, Average Hourly Rate Recovered is a measure of the level of efficiency of this billable time. This KPI measures the amount of revenue invoiced over the number of hours worked. Time is money in a service business and time is a scarce resource so how long your staff take to complete each job (especially if you have a “value-based” or “retainer” pricing model) will have a significant impact on the amount of profit you take home from your business every month and the level of wealth you can create from your business; it’s as simple as that.

There are a number of ways to improve this KPI and investing the time and effort into developing good systems and practices that drive up this KPI will pay massive dividends in the future.

Some of the areas that we often find need attention are:

- Under-quoting and/or over delivering (scope creep)
- Inefficient practices on jobs – taking longer than necessary
- Not having a clear understanding of the “real cost” of labour and therefore not charging enough for your staff’s time

Getting clear on the average hourly rate your business needs to recover in order to deliver your desired profit margins is hands down the most valuable thing you will do in your business. This is where a good CFO is worth their weight in gold.



# Secret #5

## Cap Your Overheads



It is natural for overheads to increase as your business grows, but they shouldn't be allowed to get out of hand. The best way to keep track of this over time is by measuring your overheads relative to your total revenue ie as a % not a \$ figure. A good target here is no more than 25%.

Your objective should be to reduce your overheads as a percentage of your revenue – or at least keep them constant. Many businesses are signed up to services that they don't need, or that they could get cheaper elsewhere. For each significant overhead, ask yourself if you still need it in your business. If the answer's yes, can you get a better deal?

Often, there will be a better deal available and you can save some money. You may not even need to go through the hassle of changing provider: many businesses will lower their price if you can prove to them that you can get the same service elsewhere for cheaper.



# Secret #6

## Build a KPI Dashboard



Once you've identified the KPIs you are going to track, you need to start monitoring them on a regular basis. The objective is to track your performance against predetermined benchmarks or targets so you can see where you're improving, what needs work, most importantly and spot any problems before they get out of hand.

To ensure the information you are getting is actionable, you need to reduce the time between the activity happening and the report on it. For example, it would be highly useful to know if your utilization rate suddenly dropped – but what if you only found out six months after it happened? That wouldn't be useful because you would have suffered six months of reduced profitability before you found out.

On the other hand, finding out your utilization rate has taken a sudden nosedive a few days after it happened would be incredibly useful. You can immediately find the problem and correct it.



# Secret #6 Cont'd...

## Build a KPI Dashboard



Having a “KPI dashboard” report in your business will save you hours trawling through pages and pages of financial reports that don’t make sense and enable you to pinpoint within minutes where your business is on and off the track, giving you the power to act immediately.

Imagine trying to drive your car without ever looking at the dashboard? Sounds crazy! You wouldn’t do it right? Because not looking at your dashboard could have disastrous consequences....

Yet I find so many business owners and CEO’s at the wheel of their business without a dashboard and they are literally “in the dark”.

But when you have a KPI dashboard that’s set up properly to monitor the critical numbers that you need to keep on track then you’ll have complete control over steering your business to higher levels of profitability and growth!



# Secret #7

## Incentivise the Right Behaviour

CEO's and business owners often believe they were solely responsible for driving profit and cash flow in the business. And some of them are working so hard that they were overwhelmed and getting close to burn out.

Staff were more than willing and able to share some of that load. By cascading your KPI targets down to an individual or role level you empower your team to drive their own performance against clear and measurable targets that are in-line with your overall business goals.

And before you say “no way, that’s impossible, my staff will never respond to targets and performance measures, they’re creative people, they don’t understand numbers. Yes I know...I’ve heard it all before...the key here is don’t underestimate the power of your people.

*Once staff have clear direction, all of a sudden they start to take ownership of their own performance outcomes and decision making, meaning you don’t need to be involved in every single decision and can stop micromanaging as the staff are now able to make decisions within the parameters you have set.*



# Secret #7 Cont'd...

## Incentivise the Right Behaviour

Staff morale and motivation improve instantly as they can now clearly see how their individual performance impacts the entire business and they can benchmark their own performance against these targets and potentially their peers which motivates them to continually improve their performance.

And those that don't meet their targets, well at least you now have a fair and transparent process to measure the performance of each team member and you can easily identify in which areas the team needs further development and training.

You can also consider implementing a remuneration and rewards policy around achievement of these KPI's which helps with the "what's in it for me" instinct and further drives the team to improve efficiencies and processes in line with the overall business goals that you have set.



# You Don't Have To Do It Alone

Thank you for taking the time to read this free ebook... the next step you take is really important because not taking this step is going to leave you in the dark, running as fast as you can on that treadmill, frustrated that your team doesn't understand your goals, stressed, overwhelmed and getting to the point where you'll either burn out or run out of cash, either way that's not why you set out to run a business in the first place is it?

*The most expensive thing you can do now is nothing.*

For every day you delay you are literally flushing money down the toilet by not focusing on the things that drive profit and cash flow in your business.

I had a client come on board recently after meeting with me 2 years ago when things weren't going too well. At the time they weren't ready to make the move from their existing advisor so they stayed put and in that 2 years they lost another \$200,000 even though they were meeting with their accountant monthly to review their performance!

Had they made the move 2 years ago we not only could have saved them losing that \$200K but they could have made \$300K profit in that time so that decision to stay put and do nothing cost them half a million dollars and this is a business with less than a million annual revenue!



# You Don't Have To Do It Alone

The other thing I want you to understand is *you really can't do this alone*. You're not a CFO, your bookkeeper is not a CFO and your tax accountant is not a CFO. So in the same way you help your clients get better results faster when they work with you, you're going to get better results when you work with someone who knows what they're doing.

If you spend the next 6, 9, 12 months trying to figure this out on your own or with the wrong help, that has a real tangible cost in terms of missed opportunities probably to the tune of hundreds of thousands of dollars.

If you work with an expert who can get you there in 2-3 months that means the money in the bank and the high performing business, you dreamed of in far less time and with far less stress.



**Request Your FREE  
Profit-Boost  
Strategy Session  
\$495 VALUE**



# Bottom Line...

Once you start driving profit not just revenue, once you get your team involved and stop managing everything yourself, once you break away from the bookkeeper or advisor that is holding you back and once you find the right advisor that can help you move your business in the right direction you're going to be at the top of your game, you're going to have a profitable business with a motivated team and plenty of cash flow to grow your business or enjoy the lifestyle you have always hoped for!

If you're the Managing Director of a growing service business, you're probably wondering how you can achieve all this and keep growing your business at the same time. The secret is, you don't – and you don't have to hire a six-figure Finance Director either.

Lucent Advisory is part of a new generation of tech-smart advisors, offering a cost-effective end-to-end business management solution.

Get in touch with our team today by calling (08) 8471 7007 or through our online contact form to find out how we can help you increase the profitability of your business.



# What Our Clients Say:

*"We have never had such a clear picture of our finances."*

*Katrina Pink, Pinky's Fencing*

*"Lucent's reporting to our business needs has been essential for us in making business decisions."*

*Cara Miller, Sound Radiology*

*"Since working with the team at Lucent we have achieved a better understanding of our business performance."*

*Brigitte Lane, Adelaide Obstetrics & Fertility*

*"Rachael and her team have provided me with clarity and confidence in managing my growing business."*

*Sarah Watson, Clarity Wellness*



# About the Author

Thank you for taking the time to read the The 7 Secrets Of High Profit Service Firms. I'm so passionate about helping small businesses succeed.

I started my career back in the late '90s working in larger corporates like British Airways Australian Rail Track Corporation and BAE Systems in Australia before I began working for a mid-tier accounting firm in Adelaide.

Working with small and medium-sized businesses for the first time really opened my eyes to the disparity between the level of financial support and insights big companies enjoyed compared to SME's who couldn't afford finance and HR teams at their disposal.

I started Lucent Advisory in 2005 with a mission to level the playing field and help small business owners & CEO's get access to the same level of expertise and insight that these big corporates had but at a fraction of the cost.

What I didn't consider at the time was how hard it was going to be to grow a professional service business from the ground up with no experience; to find the right people, to motivate them towards my goals and to deliver a profitable outcome.

Instead, I worked my butt off for over 10 years delivering outstanding service to my clients whilst making every mistake under the sun in my own business. From hiring the wrong people to taking on the wrong clients, not giving my team clear direction and not recognising that I didn't have to do this all on my own and that my team were actually really capable of taking ownership and driving their own performance.

It wasn't until I was at the point of almost burning out that I stopped and realised that something had to change and those changes are the 7 secrets that I am sharing with you today. So this is not just me telling you what you need to do, I have actually been in your shoes and lived and breathed this.



# About the Author

I have been right up to the edge of that cliff and peered over and since then I have not only turned my business around by implementing these secrets, but my team and I have helped dozens of other businesses achieve the same outstanding results without making the same mistakes I made along the way.

The question I've always been obsessed with throughout my career is what's the difference between a business that is struggling to grow, always having cash flow issues, not able to pay their bills and taxes on time and accumulating more and more debt to a business that is making money, growing and thriving.

After working with literally hundreds of businesses across many different industries over the years I've noticed the same patterns reappearing and these are what I call the "7 secrets" which I shared with you today.

Implementing the 7 secrets into your business is entirely possible for you. None of them requires you to have a higher than average IQ, be super good looking and have an abundance of money to invest. Each of the secrets is entirely possible but it will require you to change your mindset and your behaviour.

Thanks for taking the time to read this and I wish you all the best.



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