



Sovereign CPAs

Professional Services Playbook

A Strategic Guide for Utilization, Realization, and WIP Control

Executive Summary

- Professional services profitability relies on effective time management, cost control, and client billing discipline.
- Core levers include utilization (billable hours vs. capacity), realization (billed vs. billable), and work-in-progress (WIP) control.
- Forecasting and resource planning are key to optimizing staffing, project profitability, and client satisfaction.
- Disciplined billing practices, WIP monitoring, and collection processes drive cash flow and financial stability.
- In the first 90 days, focus on utilization tracking, realization improvement, and tightening WIP management.

Executive Dashboard

| | |
|----------------------------------|---------------------------------------|
| Utilization 74% | Realization 89% |
| WIP Balance \$320K | DSO 42 days |
| Gross Margin 48% | Project Profitability 62% |
| Revenue Growth 18% YoY | Backlog Coverage 4.2 months |

1. Foundations of Professional Services Finance

- Revenue model: hourly billing, fixed fee, or value-based pricing.
- Profitability drivers: utilization, realization, and project margin.
- Cash flow drivers: billing discipline, collections, and WIP control.

2. Core Metrics

- Utilization: % of total capacity spent on billable client work.
- Realization: % of billable time that is actually billed and collected.
- WIP Control: monitoring unbilled work to prevent write-offs.
- DSO (Days Sales Outstanding): speed of cash collections.
- Gross Margin: net revenue minus direct delivery costs.

3. Budgeting & Forecasting

- Revenue forecast: based on utilization targets and billing rates.
- Expense forecast: salaries, benefits, contractor spend, overhead.
- Scenario planning: staffing levels, rate changes, client demand.
- Cash forecasting: include WIP recovery and collection cycles.

4. Utilization Management

- Set target utilization by role (e.g., consultants 75-85%).
- Monitor weekly timesheets to identify under- or over-utilization.
- Align staffing with pipeline forecasts to avoid bench costs.

5. Realization Improvement

- Track write-downs and write-offs at client/project level.
- Enforce billing discipline and approval policies.
- Review rate cards annually to align with market and margin goals.

6. WIP Control

- Weekly WIP reviews to monitor unbilled hours and costs.
- Set thresholds for maximum WIP aging before billing.
- Automate invoicing to reduce lag and minimize write-offs.

7. Investor & Board Reporting

- Monthly package: utilization, realization, WIP balance, gross margin.
- Quarterly review: backlog coverage, client concentration, revenue growth.
- Investor KPIs: profitability per consultant, DSO, cash runway.

8. Compliance & Risk Management

- Engagement letters and scope definitions to reduce disputes.
- Timekeeping and billing compliance (SOX readiness if public).
- Confidentiality and data security (client data, GDPR).
- Audit readiness: reconciliations of WIP and deferred revenue.

9. Scaling the Finance Org

- Early stage: bookkeeper + outsourced CFO support.
- Growth stage: in-house controller, billing specialist, FP&A; analyst.
- Mature stage: CFO, full FP&A; team, revenue ops, internal audit.
- Systems: ERP, PSA (professional services automation), BI dashboards.

10. 90-Day Implementation Plan

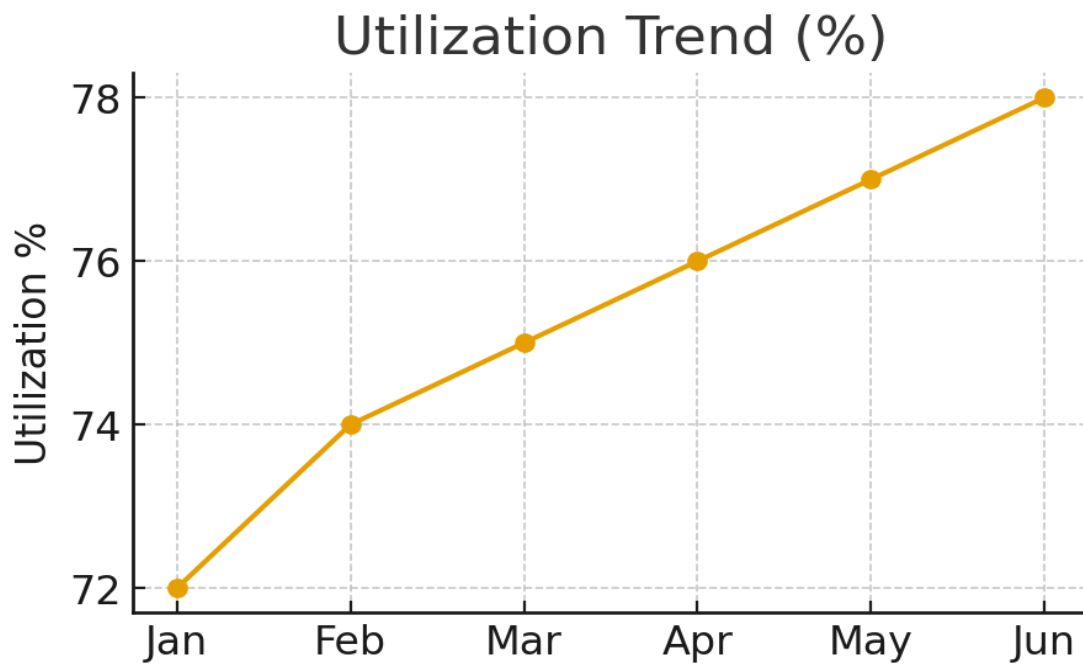
- Days 1–30: implement utilization tracking and weekly WIP reviews.
- Days 31–60: refine rate cards, enforce billing approvals, reduce write-offs.
- Days 61–90: establish reporting cadence; review backlog and DSO improvement.

Key Professional Services Metrics Table

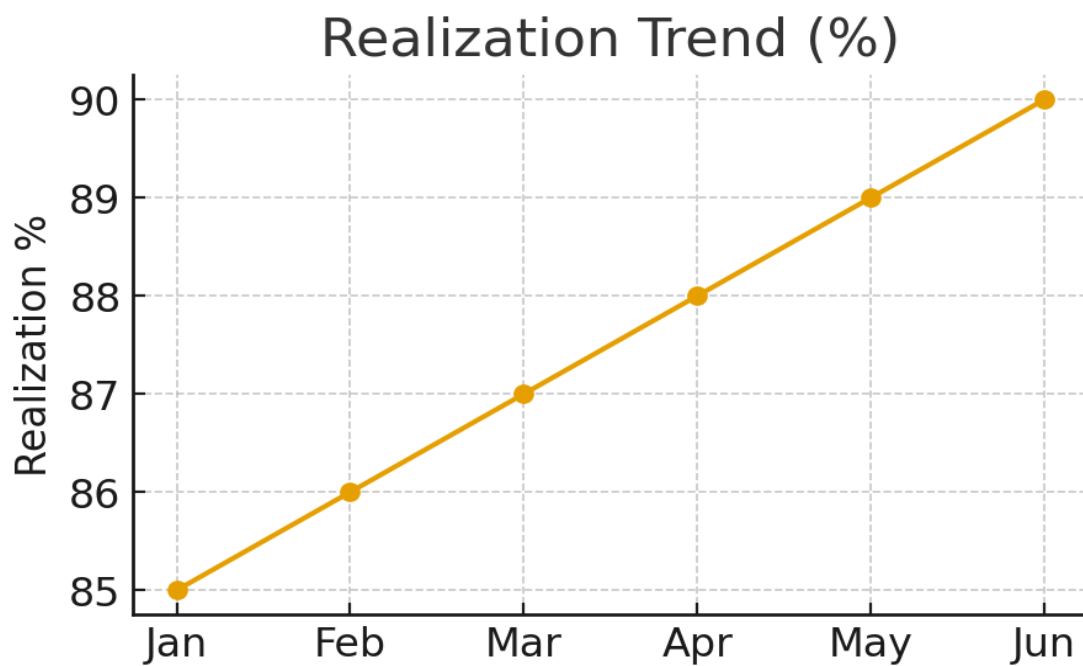
| Metric | Definition | Target Benchmark |
|--------------|---|---|
| Utilization | Percentage of available hours spent on billable work. | Target 70-85% depending on role. |
| Realization | Percentage of billable hours converted into billed revenue. | Target ≥ 85-90%. |
| WIP Control | Tracking unbilled hours/costs to reduce write-offs. | Weekly monitoring; minimize aged WIP > 30 days. |
| DSO | Days Sales Outstanding: speed of client collections. | Target 30-45 days. |
| Gross Margin | Revenue minus direct delivery costs. | Target 40-55% depending on practice. |

Appendix: Visuals

Utilization Trend



Realization Trend



Quarterly WIP Balance

