Beyond the Pipeline: Introducing the Resource Efficiency Value Index (REVI)™ for Professional Services Firms

Introduction

In the current world of professional services, traditional sales metrics often fall short in capturing the true strategic value of opportunities. Building on my previous work with the Capacity Sold Over Time (CSOT)™ metric, this white paper introduces a new, complementary metric designed to provide deeper insights into the quality and potential of sales opportunities: the Resource Efficiency Value Index (REVI).

The Limitations of Traditional Metrics

Professional services firms have long relied on standard sales pipeline metrics such as revenue value and win rates. However, these metrics often fail to account for critical factors such as resource utilization and project duration. In an industry where human capital is the primary asset, understanding how efficiently opportunities utilize resources is crucial for strategic decision-making.

Introducing the Resource Efficiency Value Index (REVI)

REVI is a metric designed to help professional services firms evaluate and prioritize projects based on their revenue generation, resource utilization, and duration. It provides a simple yet powerful way to assess the strategic value of different opportunities.

Calculating REVI

The REVI is calculated using the following formula:

REVI = (Total Revenue / Project Duration) * Number of Resources

To make this metric more usable and comparable across different projects, we normalize it to a 0-10 scale using an "Ideal REVI" as a benchmark:

- REVI Score = 10 * (Calculated REVI) / (Ideal REVI)
- The score is capped at 10 to maintain the 0-10 scale.

Determining Your Firm's Ideal REVI

The concept of an "Ideal REVI" is central to this metric's effectiveness. Each firm must determine its own Ideal REVI based on its unique business model, strategic goals, and market positioning.

The Ideal REVI represents the characteristics of what your firm considers to be the perfect project.

For example:

- A large consulting firm might set their Ideal REVI based on a 6-month project with 4 consultants generating $1 million in revenue:
  Ideal REVI = ($1,000,000 / 6) * 4 = $666,667

- A smaller, specialized firm might base their Ideal REVI on a 2-month project with 2 consultants generating $40,000:
  Ideal REVI = ($40,000 / 2) * 2 = $40,000

These vastly different Ideal REVIs reflect the different scales, specializations, and business models of these firms. And obviously, different firms will be aiming to achieve different things, so this is how we account for those differences.

Factors to Consider When Determining Your Ideal REVI:

- Typical project size and duration in your industry
- Your firm's resource capacity and utilization goals
- Revenue targets and profit margins
- Strategic objectives (e.g., preference for longer-term engagements or quick turnaround projects)
- Client expectations and market demands

It's important to note that your Ideal REVI may change over time as your firm grows, your market evolves, or your strategic priorities shift. I recommend reviewing and adjusting your Ideal REVI periodically to ensure it remains aligned with your current business goals.

Using REVI in Practice

Once you've established your Ideal REVI, you can use the REVI Score to evaluate and compare potential projects quickly:

- A score of 10 indicates a project that meets or exceeds your ideal
- Scores between 7-9 represent very good opportunities
- Scores between 4-6 are average opportunities that may need closer examination

- Scores below 4 might indicate projects that are less aligned with your firm's ideal, though they may still be strategically valuable for other reasons

REVI in Action: Example Scenarios

Let's examine how REVI can be applied to evaluate and compare different opportunities:

Scenario 1: Large, Long-Term Project

- Total Revenue: $1,200,000
- Number of Resources: 4
- Project Duration: 12 months
- Ideal REVI: $500,000

REVI = ($1,200,000 / 12) * 4 = $400,000

REVI Score = 10 * ($400,000 / $500,000) = 8

Scenario 2: Short-Term, Intensive Project

- Total Revenue: $300,000
- Number of Resources: 6
- Project Duration: 2 months
- Ideal REVI: $500,000

REVI = ($300,000 / 2) * 6 = $900,000

REVI Score = 10 * ($900,000 / $500,000) = 10 (capped)

Scenario 3: Small, Quick Project

- Total Revenue: $50,000
- Number of Resources: 1
- Project Duration: 1 month
- Ideal REVI: $500,000

REVI = ($50,000 / 1) * 1 = $50,000

REVI Score = 10 * ($50,000 / $500,000) = 1

Analysis:

While Scenario 1 has the highest total revenue, Scenario 2 scores highest on the REVI scale due to its efficient use of resources over a shorter time period. Scenario 3, despite being a quick project, scores low due to its small scale relative to the firm's Ideal REVI.

Driving Firm Behaviors with REVI

Implementing REVI can drive several positive behaviors within a professional services firm:

- Efficient Resource Allocation: By prioritizing opportunities with higher REVI scores, firms can maximize the value generated from their limited resource pool.
- Balanced Portfolio Management: REVI allows firms to maintain a balanced portfolio of projects. While high-REVI projects are desirable, firms may also choose to pursue lower-REVI projects for strategic reasons.
- Improved Pricing Strategies: Understanding the REVI of different types of projects can inform pricing strategies. Firms might choose to adjust their pricing to improve the REVI of certain types of engagements.
- Enhanced Collaboration Between Sales and Delivery Teams: REVI encourages sales teams to consider resource utilization when pursuing opportunities, fostering better collaboration with delivery teams.
- Strategic Client Management: By analyzing REVI across different clients, firms can identify their most valuable client relationships and guide account management strategies.

Implementing REVI in Your Firm

To effectively implement REVI:

- Determine your firm's Ideal REVI through careful consideration of your business model and strategic goals
- Integrate REVI calculations into your CRM and opportunity management systems
- Train sales teams on the importance of REVI and how to use it in opportunity evaluation
- Include REVI in regular pipeline reviews and forecasting discussions
- Use REVI alongside other metrics like CSOT for a comprehensive view of firm performance

Conclusion

The Resource Efficiency Value Index (REVI) provides professional services firms with a powerful tool for evaluating opportunities and driving strategic behaviors. By considering revenue, resource utilization, and project duration, REVI offers insights that traditional metrics often miss.

As firms navigate an increasingly competitive landscape, metrics like REVI will be crucial in making informed decisions that maximize value and drive sustainable growth.

Remember, while REVI is a valuable tool for project evaluation, it should not be the only factor in your decision-making process. Consider other strategic factors such as client relationships, market penetration, and long-term growth potential when evaluating opportunities.

I encourage professional services firms to consider incorporating REVI into their sales and operational processes. By doing so, they can gain a more nuanced understanding of their opportunities and make strategic decisions that optimize resource utilization and drive profitability.

About the Author

John Quirk has over 30 years of experience leading successful professional services firms. John has a proven track record of building high-performing teams, fostering award-winning cultures, and delivering exceptional client value. His previous white papers have explored innovative approaches to talent management, metrics, and organizational success. You can reach John at john.quirk@gmail.com and read his work at Quirk's Next Thing