

Professional Services Advanced Metrics: Introducing Capacity Sold Over Time (CSOT)[™]

By John Quirk

Introduction

In the world of professional services, metrics should be the backbone of informed decision-making and strategic planning. They provide insights into the health of the business, enable data-driven decisions, and help organizations optimize their performance. While traditional metrics like "backlog" have been the go-to for years, I'd like to introduce a more advanced and insightful metric: Capacity Sold Over Time (CSOT).

This white paper will explore the concept of CSOT, its advantages over traditional backlog metrics, and how it can transform the way professional services organizations think about and manage their sales pipelines. We'll also discuss the implications of this shift for sales and operations teams, as well as the potential for benchmarking and best practice sharing across the industry.

Understanding Capacity Sold Over Time (CSOT)

At its core, CSOT is a straightforward metric. It measures the ratio of sold billable hours to total available hours over specific time periods, typically 4, 8, and 12 weeks. For example, if a team has 1,000 available hours in a week and has sold 800 of those hours, their CSOT would be 80%.

However, to truly unlock the potential of this metric, organizations need to factor in additional considerations such as holidays, PTO, and potential sick time. By taking these elements into account, CSOT provides a comprehensive view of an organization's capacity and revenue potential.

Let's consider a more complex example. Imagine a professional services firm with 50 employees, each working an average of 40 hours per week. Over the next 12 weeks, the firm has the following parameters:

- 10 company holidays (80 hours per employee)
- An average of 3 PTO days per employee (24 hours per employee)
- An estimated 2 sick days per employee (16 hours per employee)

The total available hours for the firm over the 12-week period would be:

$(50 \text{ employees} \times 40 \text{ hours} \times 12 \text{ weeks}) - (50 \times 80 \text{ holiday hours}) - (50 \times 24 \text{ PTO hours}) - (50 \times 16 \text{ sick hours})$
= 18,000 hours

If the firm has sold 14,400 of those 18,000 hours, their 12-week CSOT would be 80% (14,400 / 18,000).

Advantages over Traditional Backlog Metrics

Traditionally, professional services organizations have relied heavily on backlog metrics to gauge their performance and plan for the future. While knowing the absolute size of the backlog is useful, it doesn't provide the full picture. Backlog metrics don't take into account the time element, which is crucial for understanding the true state of the business.

CSOT, on the other hand, provides a more accurate and actionable view by measuring sold hours against available capacity over specific time periods. This time-sensitive approach enables organizations to identify potential gaps in their pipeline, anticipate capacity constraints, and make proactive decisions to optimize revenue.

For instance, let's say a firm's backlog indicates they have \$1 million worth of projects lined up. While this might seem like a healthy pipeline, it doesn't tell the whole story. If the majority of those projects are set to start 3 months from now, the firm might actually face a significant revenue gap in the near term.

By measuring CSOT over 4, 8, and 12-week periods, the firm can get a clearer picture of their short-term revenue potential and make informed decisions about resource allocation, hiring, and sales strategies.

Transforming Sales and Operations Collaboration

One of the key benefits of CSOT is its ability to bridge the gap between sales and operations teams. Calculating this metric requires a deep understanding of both sales performance and operational capacity, fostering greater collaboration between these two critical functions.

Sales teams need to be attuned to operational realities, such as available resources and potential capacity constraints. Operations teams, in turn, need to be more engaged with the sales pipeline, understanding the timing and distribution of upcoming projects.

Let's illustrate this with an example. Imagine a professional services firm where the sales team has just closed a large project that requires 1,000 billable hours over the next 6 weeks. Excited about the win, they immediately inform the operations team.

However, upon reviewing the CSOT metric, the operations team realizes that they only have 800 hours of available capacity over the next 6 weeks. They're already operating at 90% capacity due to other projects.

Armed with this insight, the sales and operations teams can work together to find a solution. (Or, ideally, armed with this insight, a solution was planned prior to the deal closing) They might decide to shift some non-critical projects to a later date, freeing up resources for the new project. Or they might explore the possibility of hiring additional staff or engaging subcontractors to meet the demand. By collaborating in this way, guided by the CSOT metric, sales and operations can make informed, data-driven decisions that optimize resource allocation and maximize revenue.

Enabling Proactive Decision-Making

Another significant advantage of CSOT is its ability to enable proactive decision-making. By providing a forward-looking view of business health and potential, this metric allows organizations to anticipate challenges and opportunities, rather than simply reacting to them.

For example, let's consider a professional services firm that measures their CSOT over 4, 8, and 12-week periods. Their data shows the following:

- 4-week CSOT: 95%
- 8-week CSOT: 80%
- 12-week CSOT: 60%

This data tells a clear story. The firm is operating at near-full capacity for the next month, but their pipeline starts to thin out after that. If they don't act, they could face a significant revenue gap in the coming months.

With this foresight, the firm can make proactive decisions to mitigate the risk. They might ramp up their sales efforts to fill the pipeline for weeks 8-12. They might also explore opportunities to upsell or cross-sell to existing clients, generating additional revenue from their current base. The firm would also know how to find short term solutions to the current high-capacity usage and not hire for a short term need.

On the flip side, if the firm's 12-week CSOT was at 95%, that would indicate a different challenge. They might need to start thinking about hiring additional staff or expanding their subcontractor network to meet the upcoming demand.

In both cases, the CSOT metric provides the necessary insight to make informed, proactive decisions. Rather than being caught off guard by revenue gaps or capacity constraints, the firm can anticipate these challenges and take steps to address them in advance.

Improved Revenue Forecasting

Another benefit of Capacity Sold Over Time (CSOT) is its ability to enhance revenue forecasting for professional services firms. By measuring sold hours against available capacity over specific time periods, CSOT provides a clear, time-sensitive view of expected revenue. This is a significant improvement over traditional backlog metrics, which offer a static view of future work but don't account for the timing of that work. With CSOT, firms can see not just how much revenue is in the pipeline, but when that revenue is likely to materialize. This allows for more accurate financial planning, resource allocation, and strategic decision-making. For example, if CSOT data shows a potential revenue gap in the coming months, the firm can proactively adjust its sales strategies or resource allocation to mitigate that risk. Conversely, if CSOT shows a strong pipeline of work, the firm can confidently invest in growth or expansion initiatives. In this way, CSOT empowers professional services firms to forecast revenue with greater precision and confidence, enabling them to navigate the future with greater agility and success.

Driving Data Quality and Benchmarking

Implementing CSOT as a key metric also has the potential to drive improvements in data quality and enable benchmarking across the industry.

To calculate CSOT accurately, organizations need robust systems for tracking billable hours, available capacity, and other key variables. This requirement can spur investments in time tracking, project management, and resource planning tools, as well as in the processes and governance structures needed to ensure data accuracy and consistency.

As more organizations adopt CSOT, there may also be opportunities for benchmarking and best practice sharing. By comparing their performance against industry peers, firms can gain valuable insights into areas for improvement and successful strategies for optimizing capacity and revenue.

Imagine an industry benchmarking report that shows average CSOT metrics across different types of professional services firms. A management consulting firm might see that their 8-week CSOT is 75%, while the industry average is 85%. This insight could prompt them to investigate the reasons for the gap and identify opportunities to improve their sales pipeline or resource utilization.

Over time, as more data is collected and shared, these benchmarking efforts could help to establish industry standards and best practices around capacity management and revenue forecasting. This could lead to a rising tide that lifts all boats, as firms learn from each other and continuously improve their performance.

Conclusion

The shift from traditional backlog metrics to Capacity Sold Over Time represents a significant evolution in how professional services organizations measure and manage their business. By providing a more comprehensive, time-sensitive, and actionable view of capacity and revenue potential, this advanced metric can drive a range of benefits:

- More strategic and nuanced conversations about resource management and revenue forecasting
- Greater collaboration between sales and operations teams
- Proactive decision-making that anticipates and mitigates challenges
- More accurate revenue forecasting
- Improved data quality and potential for industry benchmarking

As the professional services landscape continues to evolve, metrics like CSOT will become increasingly critical. They provide the insight and foresight needed to navigate complex market dynamics, optimize resource allocation, and drive sustainable growth.

Now is the time to start exploring CSOT and considering how it can be integrated into your performance management and planning processes. The journey may require investments in data, systems, and cross-functional collaboration, but the payoff – in terms of improved visibility, agility, and performance – is well worth the effort.

In the end, the adoption of CSOT is about more than just changing a metric. It's about transforming the way professional services organizations think about and manage their business. It's about empowering teams with the insights they need to make informed, data-driven decisions. And it's about positioning firms for success in an increasingly competitive and dynamic market.

About the Author

John Quirk has over 30 years of experience leading successful professional services firms. John has a proven record of accomplishment building high-performing teams, fostering award-winning cultures, and delivering exceptional client value. You can reach John at john.quirk@gmail.com