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Financial Leadership 101 for Systems Integrators

24 metrics to know when you have P&L responsibilities… and **WHY**!

***Note**: Percentages left blank are to be filled in once your specific business model is defined and should be based on a timeframe of when you were "at your best". This checklist is a teaching tool and not intended to be used to establish rates for labor or margins for project pricing.*

1) Proposals generated per month should be ___% the average trailing 12-month revenue. – **Why**: First we must remind ourselves that measuring the sheer number of proposals could drive bad behavior. Yet, the leading indicator to fill the pipeline is to generate activity. The efficiency rating of quoted to won projects and average value of proposals, what is being proposed, ratio of hours to equipment should be an area of focus. We can measure who is efficient at quoting, are we quoting the right things This metric should be focused to quote less and win more. Over time you can correlate your bid rate dollars with your capture rate dollars. Capture rate gains and slippage should be an ongoing metric.
2) New project revenue booked should be ___% the average trailing 12-month revenue. – **Why**: There needs to be a metric aligned with the company goal/yearly budget on bookings that gives the person a sense for how the pipeline is feeding the upcoming budget/forecast. This metric will allow you to know what it (if you are light or heavy) will do to the upcoming months' P&L revenue. This is key so you can put pressure on driving more bookings or increasing margins if you are booking like crazy and the schedule indicates that you will be overly busy. Watch the delta in new monthly bookings, not the just the amount of new booking. You need to be alert for the delta trend. Growing too fast or declining too rapidly can spell problems.
3) Revenue per employee should be **+/- $259,000** and staffing levels should be based upon this metric. – **Why**: First the makeup of your business will determine the right number to set as a key health indicator. Each company is different in the makeup of internal vs. outsourced labor usage. The level of managed services revenue will lower the number, the amount of outsourcing or use of sub-contractors will increase the number (i.e., if you sub out all cable work then you are going to have revenue from that work but no headcount to do it). If you provide internal labor for every aspect of the project your headcount for all that revenue will be far different from your peers who sub that work out to others. Finding the right number is key and managing to that is a key dashboard metric. This should be an internal year-over-year comparison, as well as a comparison to industry indexes. Maintain separate indexes for different lines of revenue, such as T&M service dispatch revenue versus new construction.
4) Productivity should be at **85%** utilization prior to approval of unbilled OT or additional staffing added. – **Why**: This is a must have. We need to set the expected utilization by job role (some will have higher expectations than others) and then track and monitor where you are over/under to manage staffing levels. This is a great indicator of company health and very useful for setting trigger points for when additional staff is required. This too should be an internal year-over-year comparison, as well as a comparison to industry indexes. Maintain separate indexes for different lines of revenue, locations, and business units.
5) Non-itemized misc. parts, hardware, contingencies/total revenue needs to be priced into projects be **>1%** (or higher). – **Why**: Having a % in mind is good to try and capture on the quoting side of the house and part of managing the design and engineering department. More important though is measuring that figure on the back end to see if you are in line or need to adjust to be competitive/make money (i.e. is the actual number usually 0.5% or 2%?) Measure the historical miscellaneous costs each year to update your percentage used for bidding.

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6) Revenue per salesperson should be measured by these targets **$800k** in year one, **$1.2MM** in year two, and **$1.8 MM** in year three and beyond at "management approved" GP % levels. –
Why: Especially relevant for sales leaders and branch office managers, using industry benchmarks for sales productivity is a key management metric. This metric is most useful for the sales leader in your organization to manage performance and determine when the right time to hire additional producers would be. HR will also find this useful and others with line of sight to sales staffing/decisions. Be careful to separate expectation for individuals selling new project construction jobs versus individuals selling managed services. The metrics on topline revenue are vastly different.

7) Labor Mix: Labor revenue/total revenue should be targeted at historic averages or ___% of total project value for budgeting purposes. –
Why: Predictability of labor requirements is a major factor in being a profitable company. The development of a budgetary figure which "may" be aligned to some sort of historical figure or modified based on a move to more Managed Service business for example. A real business plan should be developed and adjusted periodically that gives insight that will show stability or indicate that you are moving in a different direction than expectation from what history shows. Having a forecast and plan based on backlog is key and more important than looking at history. Using historical data only without looking forward can be misleading when vertical market shifts happen. Targeting a planned number and just aiming for a higher % when maybe that isn't aligned with a long-term plan can be a problem as well. Tracking labor mix is also critical if one uses a duel overhead rate for proposals.

8) Backlog/WIP/work schedules should be made visible and used to determine the final pricing model for each project. –
Why: Line of sight to backlog by location/technology is key to know firm business and from there think about staffing levels in conjunction with utilization targets. Bookings to billings ratios will give you great insight into establishing what should be your ideal backlog to sell towards. Too much backlog might upset clients if they haven't agreed to your schedule, too little will create holes in your schedule and cashflow problems down the road. Bidding low margin projects while backlog is above a healthy level isn't good. Bidding low margin projects within the completion timeline of an already packed schedule is even worse and often leads to unbillable overtime. It is critical to update a monthly 12-month projected burn-off of backlog schedule. What was true last month can change radically, for example the interruption to construction caused by the current lumber shortage.

9) Project management time will be calculated and allocated to the project on a per job basis and not as a percentage of the install/technical hours. –
Why: Using a flat % has proven to drive non-competitive pricing in some jobs that simply don't want it, or value it. Pricing and then charging to the jobs for PM time will allow you to manage the staffing accordingly to quoted time. This metric will also help determine if you should be quoting more time or adding more PMs to cover the jobs that require it. This is one of the highest valued items we provide for our clients and often the most common item given away for free… which leaves the impression it's of little or no value. At that point direct cost PMs to jobs will then become "calculated and costed to the project".

10) Total payroll needs to be **< ___%** of revenue and 30% less than Top GM. –
Why: This is a very high level/big picture metric to consider. Excluding materials, salaries are the largest expense for integrators. This would be an annual budget item based upon projected revenue and monitored throughout the year to manage profit accordingly.

11) Monthly value of Net Under-Over Billings. –
Why: Under-billings represent a loan an integrator is making to their customer. Over-billings represent a loan an integrator is receiving from their customer. It is critical to know each month if you are in a Net Over-billed position. It is also important to see the Net Over-billings growing at the same rate revenue is increasing.

12) Top Line gross margin (without labor costs: materials only) needs to be >___%. –
Why: This number really depends on the business model, the mix of revenue (EQ vs labor) and competitive bid vs. design build factors. The question that needs to constantly be asked is, what is the SG&A % to cover and what is the budget again? You will need to work back from that point, so it is difficult to ever set a flat %. This is a decision point on each project to decide if that particular project at a certain margin is in your best interest to pursue. What is the value of that project over the full technology usage lifecycle? How much support is required? Is this a box sale only? Every answer to those questions can swing this number dramatically. This is a year-over-year comparison and will change if you change your technology focus and product mix.

13) Labor Margins (labor revenue with labor direct costs) needs to be >___%. –
Why: It's tough to put a flat number for all on that not knowing the business structure and objective of being profitable. I think based on your EQ/LAB mix and then the SG&A % you need to cover is how you back into this. Again, having the budget and inputting that % is a key one to measure. I think Utilization and % overages on jobs are the two big leading indicators for labor margin performance to booking margins. This is a year-over-year comparison.

14) Net gross margin needs to be **>___%** of the total project revenue. –
Why: It is important to have a target price point that adequately covers the SG&A and allows for a fair profit on each project. Every integrator has one or two bad jobs each year due to bidding mistakes, site conditions, or a variety of other reasons, this metric allows you to withstand those unfortunate projects that hopefully can be eliminated over time. The budget target is key and attempting to hold that as you sell on value not on price is a winning formula. Based on many factors, target GP percentage is not the same for all companies. The best way to determine a target Gross Margin percentage is to first determine the GP percentage needed to breakeven and then add a desired profit percentage. For example, if a company needs a 30% GP to breakeven and wants a 10% pretax profit…their target GP percentage is 40%.

15) The overall installation team and technical staff burdened up labor costs needs to be **< ___%** of revenue. –
Why: One could argue that if we are watching things like utilization and overages, do all these other detailed measurements of labor performance matter? We suggest that you find the ones that matter most and if they are the leading indicators good things will come from that. If you have accurate utilization targets for each role and track and manage those as well as expectations, you could be close to 100% on budget slightly over on project hours actual/budget. Then your staffing costs that drive profitability should naturally be in line. From a daily operational standpoint, the why/how of the other leading measures will actually be more important than this overall measure. These percentage again will differ based upon the mix of lines of revenue. If you have significantly different lines of revenue (new construction vs. design-build, managed services, service/dispatch, etc. it may make sense to calculate separate target percentages.

16) The targeted base salary for sales compensations, benefits and expenses should be targeted at <___% of budgeted revenue. –
Why: For the sales leader to manage to a budget or forecast this is going to be a metric used to gauge the overall effectiveness of the producers in your company. Again, these percentage will differ, based upon the mix of lines of revenue. If you have significantly different lines of revenue (new construction vs. service/dispatch), it may make sense to calculate in separate target percentages.

17) Net Income should be targeted at **+/-10%** of Revenue. –
Why: First of all, this is just a target number and is well above current industry averages. Yet many NSCA member achieve this level or higher as they provide mission critical solutions and never undervalue themselves. Those same companies are very selective about bidding practices and the vast majority of them have significant recurring revenue through a managed services program. This key metric will align to your budget and strategy.

18) Support staff total compensation and expenses should be <___% of annual/quarterly revenue. –
Why: This is a budget and growth decision that needs to be made while doing your annual business plan. Your business structure will likely drive how many support heads needed vs technical staff. Having the budget laid out that says x% of total will drive profitability is key to know and that it fits with your strategy. If you have a plan to invest this year for future growth this number may be different expectation for the given year. These percentage may differ, based upon the mix of lines of revenue. If you have significantly different lines of revenue of a high percentage of service contracts or managed services accounts, this percentage could vary.

19) Occupancy costs must be <___% of revenue. –
Why: This is an expense that is a high-level G&A projection. NSCA members occupy a variety of office and warehouse facilities and often find themselves tempted to increase warehouse space when other are reducing their warehouse to prevent overstocking inventory. Likewise, as integrators, we seldom have visitors and unless you build out a client-facing demo space or experience center that is a revenue producing function of your business excessive occupancy costs could hurt more than help reaching your profitability goals.

20) All other expenses must be **<2 %** of revenue. –
Why: This is simply a metric that should be monitored for keeping as small as possible. This line item should be under 2% at all times and preferably not even that high. This isn't something that will make or break the performance and seldom does one person have complete control, but we have seen where companies allow this to get away from them without anyone taking responsibility for allocating misc. expenses to projects. It's often a convenient placeholder for unassigned items that erode profits. We would want you to spend more time on things like labor utilization/overages but when this becomes as significant amount of money we need to move those expenses into budgeted categories.

21) Net Income should be above your monthly plan (track it monthly). –
Why: You should target 100% of budget and measure it against a monthly trend tracking graph over the course of the year. This metric is a key indicator of company health as an ongoing measurement and should be discussed at every management meeting. A projected (look ahead) illustration can accompany this model to provide an estimate of the income generated or cash required for the upcoming months.

22) Accounts receivable days should be under **<54 days.** –
Why: depending on the customer mix will drive what this number should be and how it plays into cash flow (working capital total turns days); if you have more construction in your customer base that DSO is likely to be higher due to retention and not paying until they are paid practices/contractual agreements. If your system allows it, track DSO including and not including billed retention. Billed retention can skew DSO values if several large project close out near the same time.

23) Inventory Days should be under **+/- 25.** –
Why: Knowing inventory levels and managing accordingly are huge for cash flow. A person new into P&L management may not have control over this or responsibility for this but it's an overall company metric worth monitoring. Another measure would simply be to have an inventory list and value on hand that you could monitor and reference against upcoming projects.

24) Total AR & Inventory should be < ___% of trailing annual revenue. –
Why: This is complicated. And if used incorrectly can get you in trouble on inventory side of the house. If you have a big upcoming summer or plan for large growth, this can be misleading and drive bad decisions that don't allow you to support growth. If unmanaged obsolete inventory could result is a major write off in years to come which has caused companies to default on their covenants with credit lines. At the highest level in your organization a daily look at this ratio will be essential.