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The Complete Guide to Project Profitability for Agencies

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Introduction

Project profitability is the ultimate goal for every agency. However, it's not always easy to achieve. Keeping track of budgets, timelines, and resources while meeting client expectations can be overwhelming — even for the most organized, efficient, and successful organization. Without the right project management solutions, projects can quickly become unwieldy and unprofitable, leading to lost revenue and even a potentially damaged reputation.

But with the right software and strategies, it's possible for agencies to increase their project profitability and stay competitive in today's market. In this guide, we'll explore the key factors that impact project profitability and provide actionable tips on how to optimize them. We'll also discuss why Wrike is the best tool for increasing project profitability and how it can help your agency achieve success.
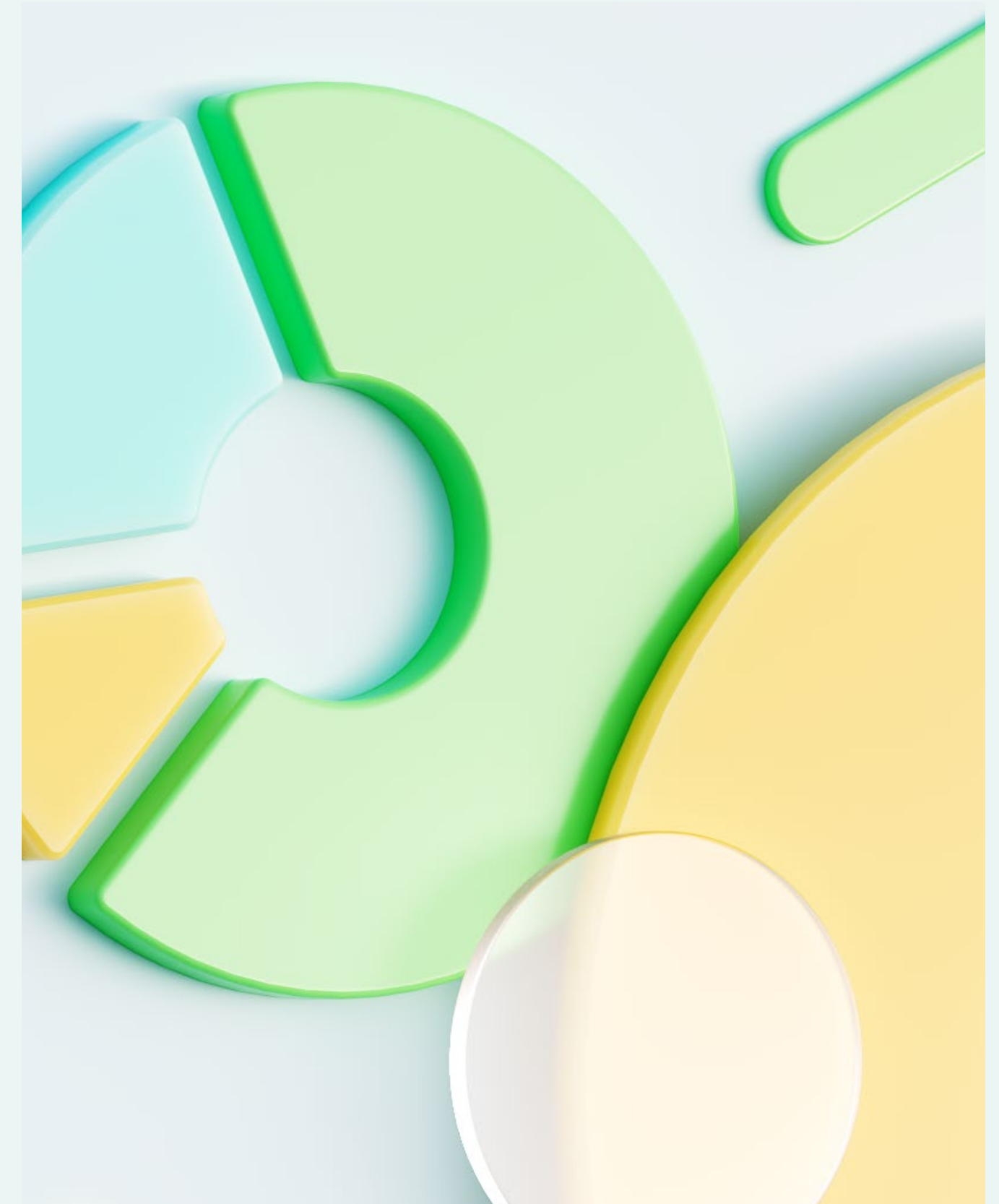
Understanding project profitability

Before we dive into strategies for increasing project profitability, let's first define what it means. Project profitability is the amount of profit generated by a project after all expenses have been paid. It's calculated by subtracting the project's expenses from its revenue.

Project profitability also describes the ability of a project to yield a financial profit or gain for an organization. In an effort to grow quickly, some firms may take on projects with slim profit margins, which can impact the overall financial health of the business. Other firms may mistakenly believe that a high-dollar initiative is the same as a profitable initiative. Spoiler alert — it's not. For agencies, project profitability is crucial because it directly impacts the success of the business. Profitable projects lead to increased revenue, better cash flow, and a strong reputation. On the other hand, unprofitable projects can drain resources, hurt the bottom line, and damage relationships with clients.

Key factors that impact project profitability

The Project Management Institute points out that "risk associated with different contract types affects the profit expectation." The profitability of such a project can be impacted by scope creep, low employee utilization, and other factors, including:

- Resource management: Proper resource management is critical to project profitability. It's essential to have the right people with the right skills working on each project. Without proper resource allocation, projects can become delayed, which leads to missed deadlines, additional expenses, and unhappy clients.

- Time management: Time is money in the agency world. It's crucial to manage time effectively by setting realistic deadlines, prioritizing tasks, and minimizing distractions. Poor time management is a common problem, with predictable results including overtime expenses and lost revenue.

- Budget management: Staying within budget is essential to project profitability. It's critical to set realistic budgets based on project requirements, track expenses, and adjust budgets as needed. Overspending, missed revenue targets, and financial losses are all issues that can arise if budgets aren't managed properly.

- Communication: Clear and effective communication is one of the most important pillars of a well-run organization that keeps clients and colleagues informed about project progress, changes, and any issues that arise. In the age of remote work and disparate teams, it's now more important that ever to avoid misunderstandings, delays, and additional expenses.

How to measure project profitability

In project management, determining the potential profitability of an initiative is very important. Profitability analysis in project management is how businesses decide whether or not a project is worth the time, effort, and resources that will be allocated toward it. An analysis is also how businesses decide to prioritize one project over another when there are multiple projects that may be competing for resources within an organization.

How can professional services organizations forecast, measure, and increase the profitability of the projects they take on? Visibility is key on all fronts. Having a top-down view of resources, time spent, and utilization rates help businesses take a long lens approach to assessing project profitability.

Businesses can use tools like the profitability index (PI) to determine the potential profitability of a project. Analyzing profit margins helps businesses accurately track revenue and maintain overall financial health.

Decoding the profitability index

Taking on new projects and investments is crucial to the growth of any business, but making sure these initiatives are profitable is just as important. So, how do businesses decide how to make one investment over another? They often use a tool called the project profitability index (PI).

The profitability index (also known as the cost-benefit ratio or profit-investment ratio) helps businesses determine the potential value or profitability of a project. Growing professional services organizations often have limited capital, so this index helps reveal viable investment opportunities.

What is the project profitability index formula?
Profitability index = Present value of future cash flows/initial
This index represents the amount of money earned for every dollar invested. If the index is higher than 1, the project is likely viable.

If the index is less than 1:
This means the project is not viable. Your business will invest more than they will take out of this initiative and the project should not be pursued.

If the index is equal to 1:
This means the project will likely break even. While not a loss, businesses rarely make investments for the purpose of breaking even. This project should also be avoided.

If the index is greater than 1:
If the index is greater than 1, the project should be pursued because it is likely to be profitable.

Establishing project margins for project management

Analyzing profit margins helps companies understand a lot about their business — including how profitable their work actually is. It's easy to take project revenue as the ultimate benchmark. However, analyzing profit margins paints a more comprehensive picture of growth, revenue, and overhead costs in order to truly understand profitability.

Firms need to bring in more money than they put into a project in order to improve their bottom line, rather than just covering project costs. Understanding profit margins can also help businesses rank and decide internally on the projects and clients worth continuing with. Gross profit margin and net profit margin are typically expressed in percentages but paint slightly different pictures when it comes to revenue.

Gross profit margin
Gross profit margin tells a company their profit after deducting expenses from the project revenue.

The gross profit margin doesn't generally take into account things like tax, interest, and other admin costs. The formula for gross profit margin is:

Project revenue - project expenses/project revenue x 100
For example, an event planning company may charge a flat fee of $28,000 to plan a tech conference on behalf of an organization. If the event company's expenses total $19,000, they have made a profit of $9,000, which is a 32% gross profit margin (9,000/28,000 x 100).

Net profit margin
As Investopedia states, "net profit margin is equal to how much net income is generated as a percentage of revenue." Net profit not only factors in total revenue, but other operating and overhead costs. The formula is:

Revenue - (Expenses, taxes, operating costs, other expenses)/revenue x 100

How to increase profit margins

According to Inc, "most professional service firms have operating profit margins from 25-40%", which means 25 to 40 cents of every dollar earned goes to the bottom line. Companies with fewer overhead costs tend to have better profit margins than companies who have higher operating expenses.

According to a report by New York University, financial services attract some of the highest profit margins available, ranging from 8.87% to 32.33%. These include accounting, bookkeeping, asset management, and brokerage firms.

In professional services, expanding profit margins isn't just about raising the cost of your services. Improving productivity and project efficiency plays a huge part, as well. Here are some of the ways becoming more efficient can increase your company's profit margins.

Eliminate scope creep
Poorly defined project scope can increase project expenses and impact profitability. 32.2% of respondents in one survey said clients changing their mind was their biggest barrier to productivity. Defining project scope early on can mitigate this productivity black hole.

Cut clients and projects that take up resources but have low profit margins
Some clients and projects simply aren't worth the time, effort, and resources put into them. Identify projects with razor-thin or non-existent profit margins and prioritize more profitable initiatives.

Use time-tracking software to measure employee utilization
High employee utilization rates mean that workers are spending a greater proportion of their available working hours doing client work. More client work means more billable hours, which means higher profits. Track and respond strategically to this important metric.

Make client retention a business priority
It costs five times more to bring in a new client than to retain one. So, what does that mean? Your business should make client retention top on its list of priorities.

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Deploying project time-tracking tools

According to research, 21.5% of billable activities often go unreported. This means that businesses are losing out on money simply because they aren't more organized in tracking their billable work. Project management tools with time-tracking capabilities help teams log and manage the hours spent doing work on behalf of clients. Let's say, for instance, that a marketing consultant, Sam, is hired by your organization. At $85/hour, Sam completes the following tasks:

- **Creating a new brand guide**

- **Developing an SEO plan**

- **Developing a content plan and calendar**

- **Planning and commissioning a new logo**

Sam logs each of these tasks and their duration within Wrike by selecting the time-tracking option. In total, Sam has completed 11.5 hours of work for this project and logged all these hours in Wrike. Based on Sam's rate of $85 and an hourly structure, he can bill your organization for $977.50.

Logging these hours within Wrike ensures there's a record for both the client and consultant to reference. Accurate time tracking can also make businesses more profitable because it ensures that all the eligible work that has been completed is accounted for — meaning no money is lost because of inaccurate time estimates.
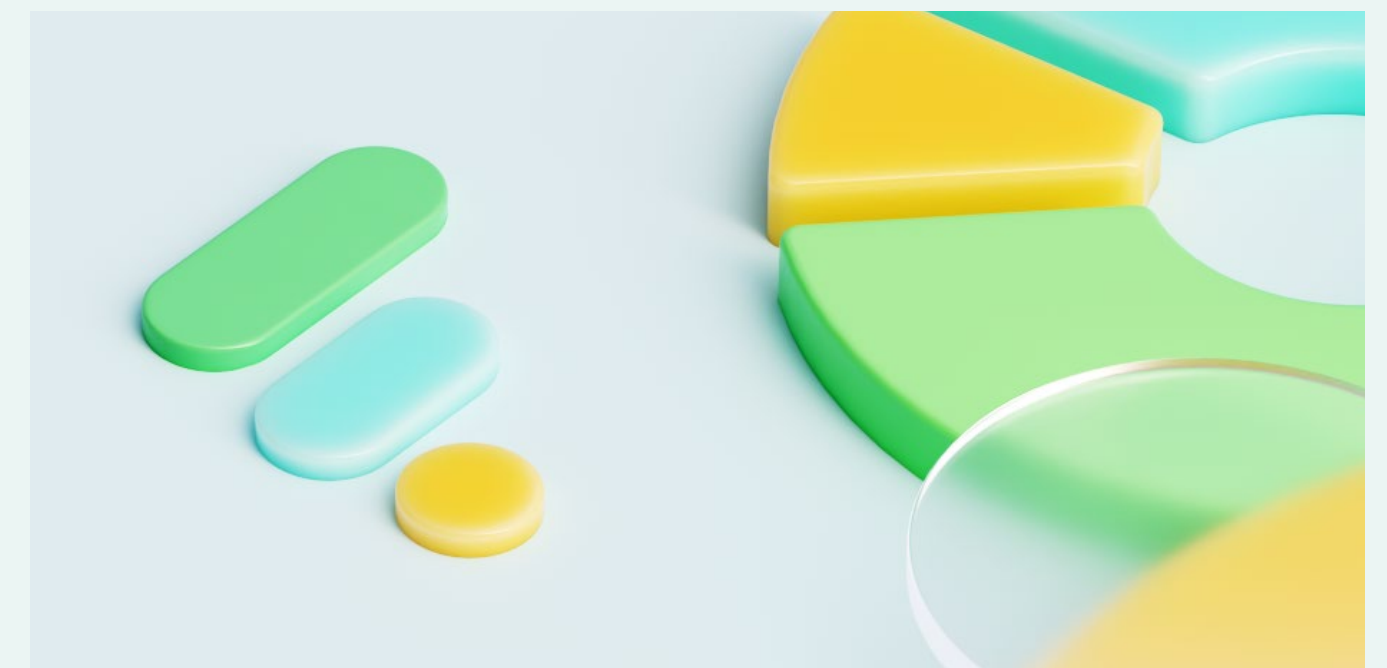
How to track productivity

A project management platform with time-tracking features can also improve productivity. Time tracking isn't just about making sure teams get paid for all the work they do. It can also be useful for revealing bloated and time-consuming processes.

If you think about it, you can probably identify one task in your daily workflow that is inefficient and begging to be templatized or automated. If it's not immediately obvious, a time-tracking tool might reveal such a task in your process.

Using project time tracking software to log both billable and non-billable work can give managers a sense of how much time workers spend on productive versus unproductive tasks.

Calculating employee utilization rates

What does employee utilization rate mean?

Employee productivity is at the heart of profitability. This means that the daily work an employee does should, in theory, drive revenue as much as possible. One important metric in measuring productivity is employee utilization. Employee utilization is normally expressed as a percentage and tells us how much of an employee's available time was spent doing billable client work.The higher the percentage, the more time has been spent doing work that can be billed to a client.

A utilization rate of 100% is unlikely and is not necessarily a good thing. It means that an employee spends all their available hours doing client work. As Productive.io points out, a 100% utilization rate also means that non-billable, yet important, activities like team building within a business are being neglected. This can be bad for employee morale and lead to employee burnout and eventually turnover. Employee utilization rate also helps paint a picture of the overall productivity of an organization. For example, if employee utilization rates are close to 100% across the board, it may be time to hire more employees in order to avoid burnout. On the other hand, if employee utilization rates are low, there may not be enough client work.

How to calculate utilization rates

The employee utilization formula is simple: Employee utilization = billable hours/total hours in a work period x 100. You can easily calculate the utilization rate for an employee within a 40-hour work week by using the time-tracking feature in Wrike.

If an employee logs 29 hours a week (out of a possible 40) doing billable client work, their utilization rate for the week is 72.5%. Without a time-tracking system in place, calculating employee utilization is nearly impossible.

For professional services organizations, measuring, monitoring, and optimizing profitability are vital for growth. When it comes to tracking time and productivity, businesses need robust and versatile software like Wrike. Wrike features help teams track time spent on client work and can provide crucial insights that aid in strategic decision-making for increased profits.

Why Wrike is the best tool for increasing project profitability

As businesses work to remain competitive in an unpredictable environment, it's becoming increasingly important to streamline operations and maximize profitability. One of the ways to achieve this is by leveraging work management software to optimize resource utilization, increase efficiency, and enhance profitability. Wrike's powerful work management software is the all-in-one solution that modern teams need to stay one step ahead. It can help teams of all sizes in every industry to:

Drive profit margins and revenue

When it comes to profitability, it's important to remember that revenue is not the only important metric. As we've seen in this guide, profit margins are equally essential and often overlooked. Businesses can use Wrike's wide range of features, views, and integrations to track the time and resources spent on each project and identify areas where they can reduce costs and optimize profitability. Additionally, Wrike's AI-led intelligence enables businesses to prioritize high-profit projects, allocate resources accordingly, and spot revenue-blocking problems in advance.
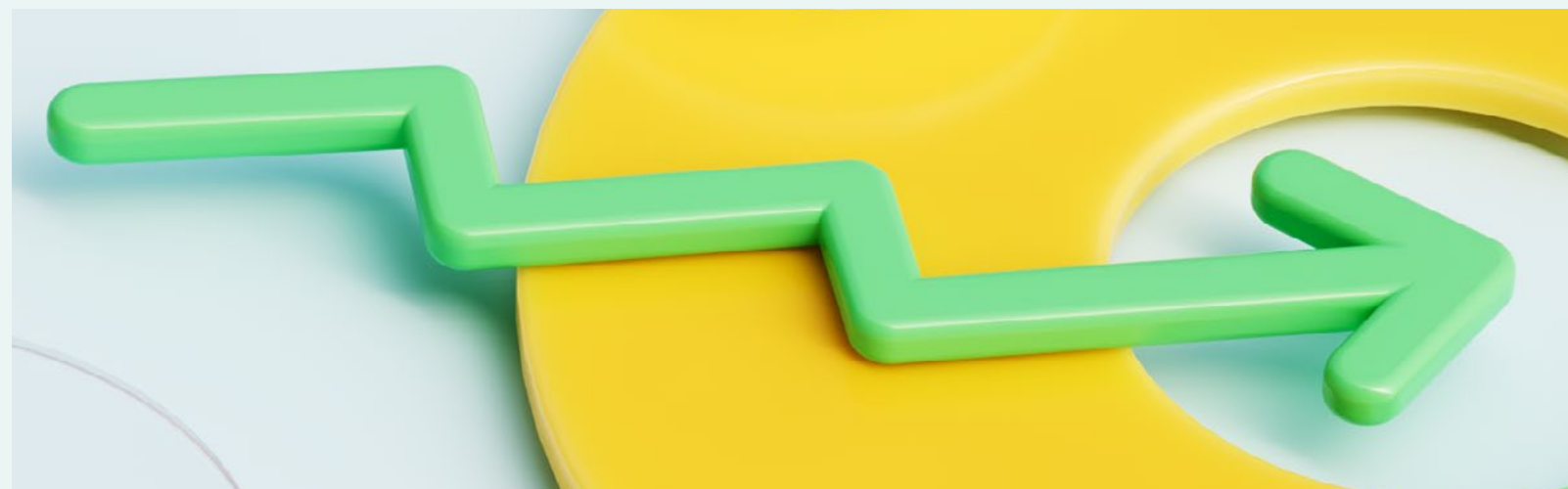
Optimize resource utilization and increase efficiency

Wrike's award-winning platform allows businesses to optimize resource utilization by allocating tasks to team members based on their strengths and availability. This helps reduce the amount of idle time and ensures that team members are always working on high-priority tasks. Additionally, Wrike's collaboration features enable distributed teams to work together more efficiently to improve communication and reduce errors.

Take control of work intake

Wrike also empowers businesses to streamline their intake by providing a completely customizable path for all project requests. This path ensures that all the required information is received the first time, without the need for back-and-forths. Additionally, businesses can use automation to prioritize, assign, and manage project requests, accelerating the workflow even without a manager's input.

Estimate, track, and optimize project resources

Measuring project resources and predicting project needs accurately can be a challenge for businesses, especially when multiple team members, departments, and even locations are involved. Wrike's resource management software simplifies this process by providing a centralized location for estimating requirements, allocating resources, monitoring progress, and adjusting in real time as necessary.

Forecast project timelines and budgets

One of the biggest challenges for modern agencies is accurately forecasting project timelines and budgets. Wrike helps businesses overcome this challenge by providing real-time visibility into project timelines and budgets via dashboards, calendars, Gantt charts, Kanban boards, and more. These real-time insights empower businesses to make informed decisions about resource allocation, reducing the risk of cost overruns and missed deadlines.

Real-time visibility into project financial health

Wrike's industry-leading work management software provides businesses with real-time visibility into project financial health, enabling them to track project costs, revenue, and profitability. This ensures that businesses can make informed decisions about resource allocation and prioritize projects that deliver the most value to the bottom line.
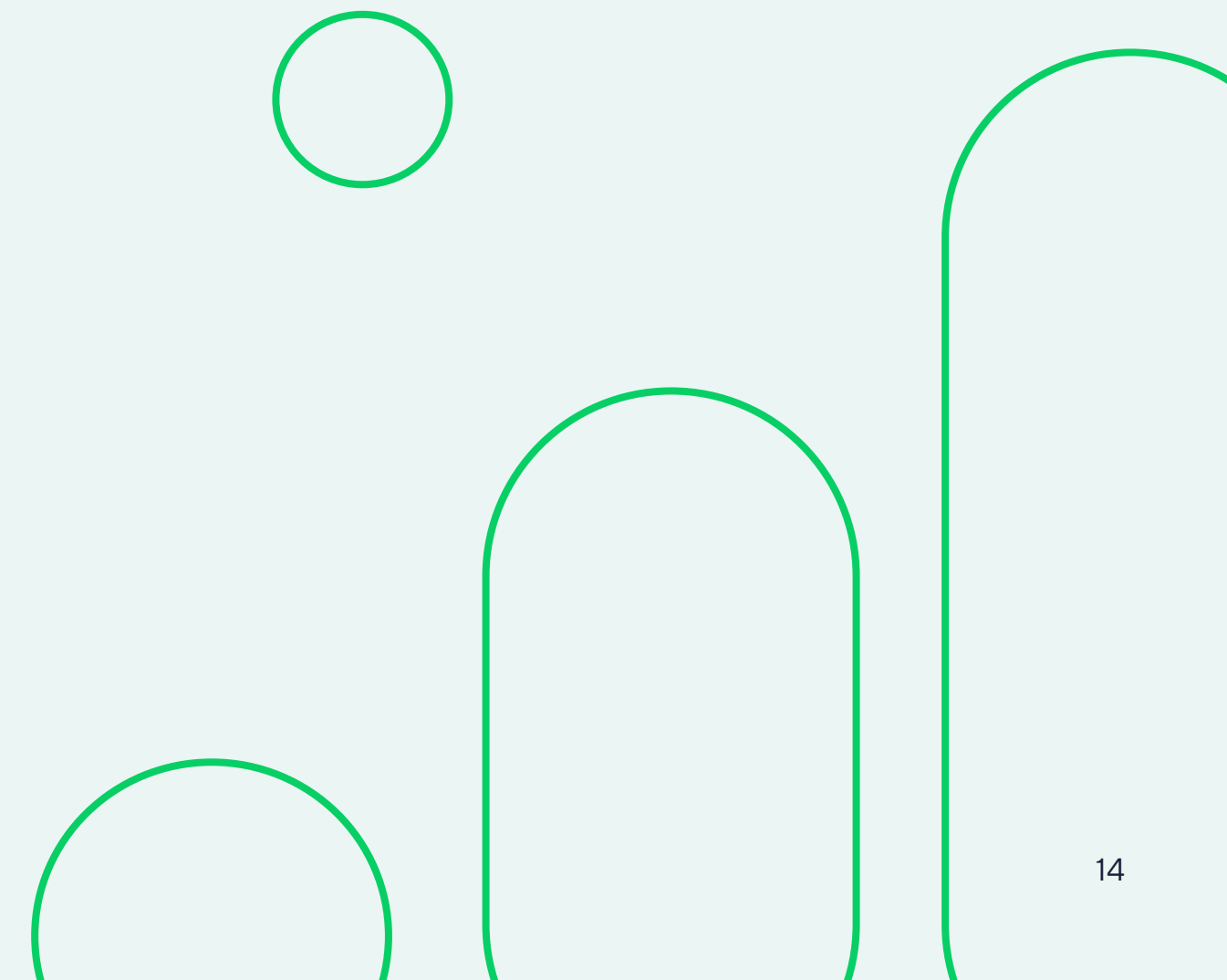
Deliver superior service and results to clients

Businesses that deliver superior service and results to clients are more likely to retain customers and increase profitability. Wrike's collaboration features were designed for internal and external stakeholders to participate in project progress. Grant limited access to folders, share assets in seconds, and issue regular progress reports at the click of a button.

Consistently ensure projects are on budget

Wrike's resource management and budgeting tools allow businesses to consistently ensure that projects are delivered within established cost parameters. This is achieved by providing real-time visibility into project costs, time allocation, and resource utilization. Progress reports can be issued at any time to keep everyone informed of the budget burn rate.

Deliver higher-quality work faster

With Wrike, your teams can centralize all their work, collaborating in one secure platform that can be accessed anytime, anywhere. Built-in proofing and approval software helps to ensure high-quality work while Industry-leading automation helps to deliver it on time, every time.
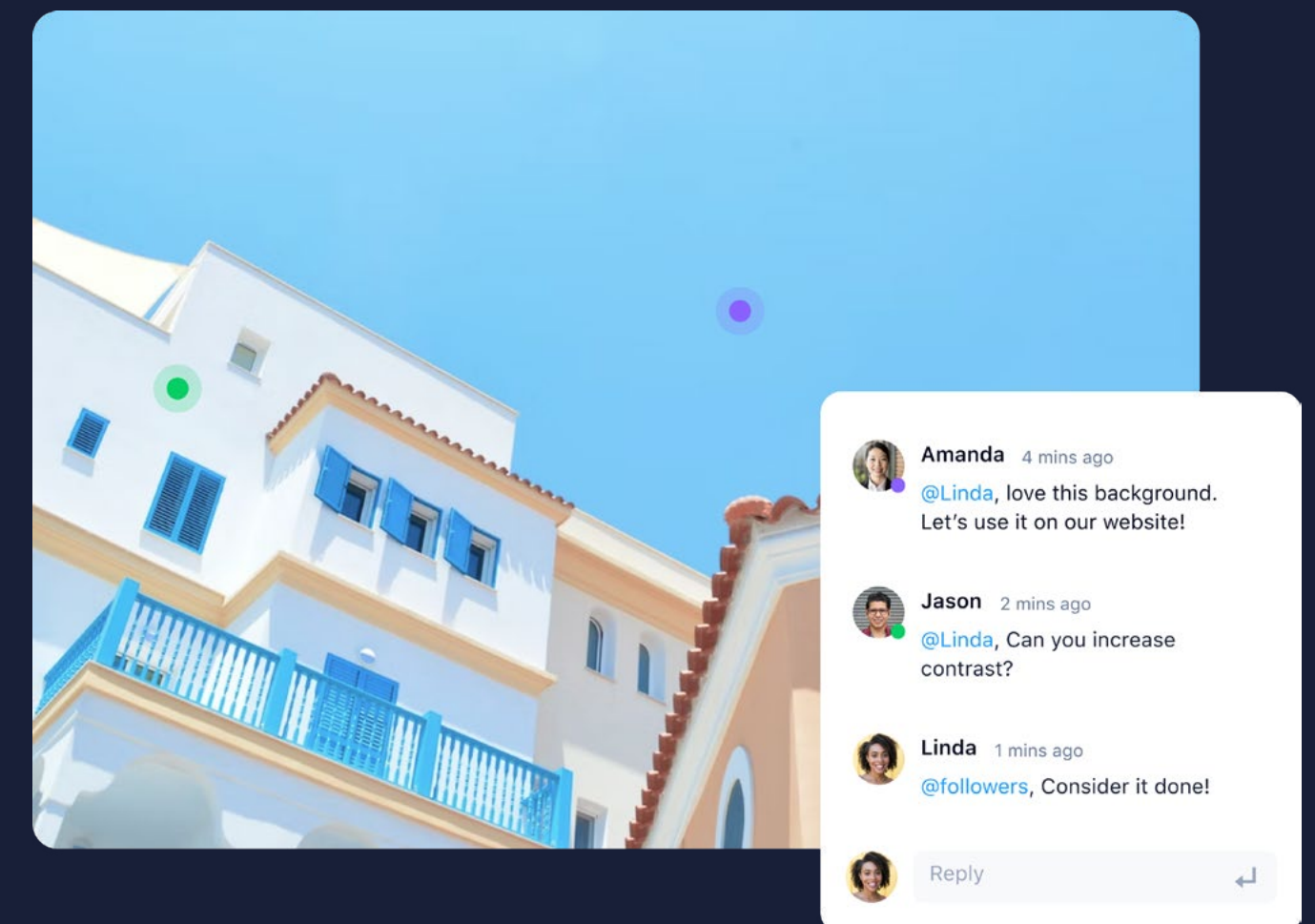
The Ultimate Path to Profitability

Maximizing project profitability is crucial for professional services agencies to achieve long-term success. By implementing the right strategies and tools, businesses can improve project planning, resource management, and financial reporting, ultimately increasing their bottom line.

As we've discussed in this eBook, the key to achieving profitability lies in understanding and managing project costs, optimizing resource allocation, and focusing on establishing strong profit margins. By taking advantage of modern technology such as project management software, businesses can streamline these processes and achieve better project outcomes.

At Wrike, we understand the challenges faced by agencies when it comes to project profitability — especially now, as we're all under pressure to do more with less. That's why we've developed a powerful project management solution designed to help organizations navigate challenging environments, optimize operations, and ensure profitability even during adversity. With Wrike, businesses can enjoy advanced project planning, real-time collaboration, and robust financial reporting features to help them manage their projects more effectively and maximize profitability.

If you're looking to improve your project profitability and take your business to the next level, try Wrike for free now. It's easy to get started and a joy to use, with a full suite of features you need to streamline your project management processes and achieve better outcomes. Don't let project profitability remain a challenge — join Wrike to start your team on the path to profitability today.

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Learn more about Wrike by starting a free trial today!

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