



IMPROVING PROJECT PROFITABILITY THROUGH TIMESHEET ANALYSIS

SUMMARY & OBJECTIVES

One of our architectural clients was struggling with project profitability.

We implemented regular monthly timesheets completed by architects. The ongoing analysis of actual worked time against the estimated billed time included 61 projects over a period of 4 years.

SOLUTION

Gross Margin (GM) target and traffic light system

The measure of profitability is Gross Margin i.e., how much is left after all labour and materials are taken out of the total price of the project.

For the purpose of the analysis, the price of the project excludes materials, as they are usually reimbursed by the client anyway.

Therefore, the following formula was used to calculate GM:

$$\text{Gross Margin} = \text{Project Revenue} \text{ minus } \text{Labour Cost}$$

In architecture and design, the ideal Gross Margin is 70%.

However, that is a very difficult bar to reach, so we considered the target **Gross Margin = 50%**, which would leave enough money to cover Overheads and Net Profit before tax.



AT A GLANCE

CHALLENGES

- **Timesheet implementation:** Convincing employees of the advantages of tracking project hours
- **Timesheet collection for analysis:** getting timesheets in a form suitable for analysis
- **Analysis timeframe consideration:** due to the nature of multi-year projects, it required patience for comprehensive data analysis to draw meaningful conclusions

BENEFITS

- **No surprises:** no project loses money unexpectedly at the end of the scope
- **Better estimates:** when pricing projects: the analysis shows which types of activities/projects/clients tend to be underestimated
- **Knowing when to say “No”:** utilising analysis insight to determine which clients/projects squeeze the margin and can be avoided in the future.

APPROACH

We established five categories of projects for which we used a traffic light system to signal their GM levels.

- **Loss** – the labour costs exceeded by far the project revenue
- **Under 30% GM** – although not within the target GM, at least these projects did not make an actual loss (colour: red)
- **Between 30% and 50% GM** – again not within the target GM, however, the profitability is still decent (colour: amber)
- **Over 50% GM** – profitable projects above the target GM (colour: green)
- **Over 70% GM** – profitable projects above ideal (colour: green)

RESULTS

 Improved profitability of closed projects over time – no more projects closed at a loss

Every year our client used to close 2 projects at a loss.

As a result of constant monitoring of project profitability, as of 2022, **all projects were closed in profit**. Even though there were some projects delivered under the target GM, the client no longer lost money while running those projects.

CLOSED PROJECTS	2019	2020	2021	2022
GM over 70%	1	4	2	0
GM over 50%	2	4	3	3
GM 30% to 50%	1	8	3	3
GM under 30%	0	6	0	1
loss	2	2	2	0

*The year of the project indicates the year of the start of the project

 Constant profitability of active projects at expected GM levels

A similar mapping of currently active projects shows that, out of 14 current projects, only 1 that started in 2022 is in the danger zone of closing at under 30% GM, and there are no projects at loss.

ACTIVE PROJECTS	2020	2021	2022	2023
GM over 70%	1	2	1	1
GM over 50%	0	1	1	3
GM 30% to 50%	0	0	3	0
GM under 30%	0	0	1	0
loss	0	0	0	0

 75% of our client's projects are now running in the target area of GM or above.

SUMMARY

Timesheet implementation and analysis may be time-consuming. However, it massively affects the organisation's profitability by:

- helping eliminate surprises in project finances
- Enhancing project pricing precision
- Making informed decisions for future projects

If you have a question about the timesheet implementation or analysis process, contact us at info@profitableinsights.co.uk