Why You Should Use Actual Available Business Hours When Calculating Utilization

Do you remember a 'proof' about why there is really no available time to go to school? The 'proof' piled assumption on top of assumption in a clever bit of double counting and misdirection to convince the eager and gullible young reader that after accounting for weekends, holidays, summer and sleep, there really wasn't any time left over to go to school.

What does that have to do with professional services firms? Don't under or over value your firm's monthly or annual utilization metric by using an incorrect assumption about the number hours in a month or the year.

You'll often see firms setting their annual utilization baseline denominator at 2,080 hours (52 weeks times 40 hours per week), and then assuming that each month has 1/12th of the total, or 173.33 hours per month. Or, you'll see firms set their utilization baseline at 168 or even 160 hours per month (21 days or 20 days times 8 hours, respectively), regardless of the month.

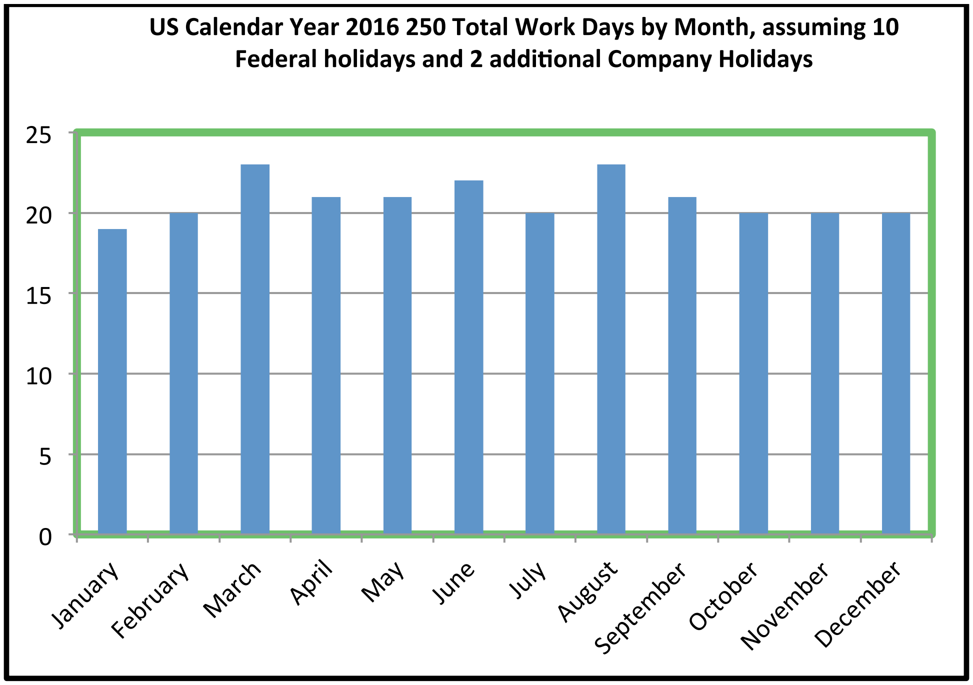
But for professional services firms that rely on Realization and Utilization to make sense of their financials and whether or not prospective projects are profitable, a more precise approach is necessary.

Let's consider the calendar year 2016, and assume a standard 8 hour work day:

There are 366 days in 2016 – it's a leap year – and 10 Federal holidays. Less weekends, that's 252 work days. Two hundred fifty two days at eight hours per day means 2,016 hours. Already we're less than a 2,080 baseline amount.

If your company has international offices, depending on the country, the standard work day may be less than 8 hours, and there may be more statutory holidays. That further reduces the accuracy and relevance of a 2,080 hour utilization denominator.

Many companies also offer holidays beyond what the US government offers. For example, many companies treat the day after Thanksgiving as a holiday, and it's not uncommon for companies to offer employees an extra half day on Christmas Eve and New Year's Eve. Depending on the company, that's another two days. So now we're down from 252 to 250 days, and an even 2000 hours. Makes the annual math easy, but don't forget those hours are not evenly distributed throughout the year:



Let's look at March 2016 in more detail: March starts on a Tuesday, ends on a Thursday, and stretches across nearly five full weeks. There are no federal holidays in March, so that's a whopping 23 work day month, or 184 hours. If your firm uses a uniform monthly amount of 168 hours per month, a staffer who works every day will end up with a 110% utilization calculation. In fact, using the 168 hour uniform monthly assumption, the staffer could miss two entire days, and still end up with 100% utilization.

Managers evaluating March results would congratulate themselves on an outstanding utilization number but it's not accurate because the denominator was wrong in the first place.

Let's look at a different example and see how a uniform month skews utilization in the opposite direction: January 2016. The month starts on a Friday and ends on a Sunday. That would be 21 work days, or 168 hours. But New Year's Day is a Federal holiday, and so is the Birthday of Martin Luther King Jr. on Monday, January 18th. So there are really 19 days, or 152 hours in January. A staffer that works all 19 available work days and has 152 hours has roughly 90% utilization using a 168 hour uniform month, but was really 100% utilized when you consider the specific month.

So the lesson is this: Your utilization reporting will be more accurate and utilization calculations truer to what actually occurred if your calculations take into account available working hours by specific month.