A SHORT BRIEF FOR FOUNDERS AND AGENCY OWNERS

The Margin Gap

Why the busiest month was not the most profitable one, where the margin actually goes, and the two numbers that explain the gap.

WHERE THE MARGIN ACTUALLY GOES

Four leaks. None appears on a P&L line. All four are operations problems.

Hours worked, never logged — Invisible until you invoice

Scope crept, no change order — Delivered free

Rework from a skipped QA gate — Paid for twice

Over-servicing the biggest client — Rewarded with more of it

WHERE I COME IN

Weekly burn against contracted hours, QA gates, and scope that cannot arrive silently.

Paul Prado Pacardo

Senior Executive Assistant · Operations and Project Manager

me.kabuhayan.app
linkedin.com/in/paulpacardo
pacardopaul18@gmail.com

Two very different months. Exactly the same money.

Every service business tracks utilization. Far fewer track realization, which is how much of that billable time actually converts into collected revenue. You need both, because they multiply.

80% utilization × 75% realization = 60%

A team at full stretch. Late nights, weekend catch-up, everyone flat out. You collect on six hours in ten, and nobody wrote anything off on purpose.

60% utilization × 100% realization = 60%

A calmer team with tighter scope discipline. Identical financial result, without the burnout, the goodwill damage, or the attrition that follows.

WHAT THIS MEANS IN PRACTICE

If your team is exhausted and the margin is still thin, the problem is almost never effort. It is the second number, and most owners have never calculated it.

WHERE THE MONEY ACTUALLY SITS

Utilization is the strongest single predictor of net margin.

Service Performance Insight has run a professional services benchmark for years. The relationship it finds between utilization and net margin is not subtle.

8 to 12%
net margin, for firms with billable utilization below 60 percent
SPI Professional Services benchmark

18 to 22%
net margin, for firms above 70 percent utilization
SPI Professional Services benchmark

55 to 65%
where most agencies actually sit, against 70 to 80 for the best-run
Published agency benchmarks

AND REALIZATION

The best-run firms hold realization above 85 percent

Which is the other half of the multiplication. High utilization with poor realization is a team working hard for a discount they never agreed to give.

SANITY CHECK

Typical agency net margin lands around 15 to 20 percent

Specialists higher. If you are meaningfully below that while everyone is busy, the gap is operational rather than commercial.

A CAUTION

Utilization above roughly 85 to 90 percent is not a win either

It signals overwork, and it buys margin now by spending retention later. There is a band, not a ceiling.

THE UNCOMFORTABLE VERSION

A five-point move in utilization changes the margin bracket you sit in. Most owners chase new revenue to fix a margin problem that already exists inside the revenue they have.

THE FINDING THAT LANDS HARDEST

The most profitable owners bill less of their own time.

If you are billing sixty, seventy, eighty percent of your own hours to protect the margin, this is the page to read twice.

65 percent
Industry average director billable utilization. The owner sitting inside the delivery line, doing chargeable work, treating a high personal number as evidence of discipline.

33 percent
Average director utilization at elite, high-margin agencies, according to The Wow Company's BenchPress survey. Roughly half the industry norm, at materially better margins.

WHY	**The owner's hours have a higher-value use than delivery** Pricing, scope discipline, the difficult client conversation, hiring, and building the systems that lift everyone else's realization. None of that is billable, and all of it moves margin more than another billed hour does.
THE TRAP	**High personal utilization feels like the responsible choice** It is visible, immediate and satisfying. It is also the reason the pricing never gets reviewed and the scope creep never gets caught, because nobody has time to look.
THE LINK	**This is the bottleneck problem with a number attached** The maximally-billed owner is the same person everything routes through, the one who cannot delegate, and the one the business cannot operate without.

PUT PLAINLY

Billing yourself harder is not discipline. It is usually a structural problem wearing a cape.

THE FOUR LEAKS, IN DETAIL

None of these appear as a line on your P&L.

Each one converts billable time into unbilled time. Every one of them is an operations problem, which is why finance never fixes them.

LEAK ONE

Hours worked but never logged

Not dishonesty. Rounding down, skipping the short task, forgetting the Sunday fix. Utilization on the dashboard is always higher than utilization in reality, and every unlogged hour is a discount you gave without deciding to.

LEAK TWO

Scope crept without a change order

The extra round, the one more page, the quick call that became a workstream. Delivered free, usually noticed in the retro, and by then it has set the client's expectation for the next engagement too.

LEAK THREE

Rework from a skipped quality gate

You pay for it twice: once to build, once to rebuild. And because rework rarely gets tracked separately, it looks like the job was simply expensive rather than that the process failed.

LEAK FOUR

Over-servicing the largest client

The account nobody wants to lose quietly consumes the most unbilled attention. It is often the least profitable relationship in the business and the one most protected from scrutiny.

THE THING THEY SHARE

Each leak is somebody's responsibility in theory and nobody's job in practice. That is why they persist through good years and bad ones alike.

WHAT CLOSES THEM

You cannot price what you do not measure weekly.

Monthly is too late. By month end the hours are guessed, the scope has already been delivered, and the conversation with the client is retrospective rather than preventive.

MEASURE

Burn against contracted hours, weekly

Per client, delivered to leadership without anyone requesting it. Not a dashboard someone has to remember to open. A report that arrives, showing which accounts are running hot while there is still time to act.

GATE

Scope that cannot arrive silently

Requests enter through a form that becomes a tracked item with an owner and an estimate. Work that was never requested formally cannot be delivered free by accident.

ENFORCE

Quality checked before it ships

Checklists attached automatically on creation, reset when work reopens. Rework tracked as its own category so it shows up as a trend rather than as an unexplained overrun.

> The first month of accurate time data is uncomfortable for everyone, because the real utilization is always lower than the reported one.
>
> That discomfort is the finding. You cannot fix a number you have never seen honestly.

THE ORDER THAT WORKS

Measure first, for four weeks, changing nothing. Then fix the worst account. Then price the next engagement using what you learned rather than what you assumed.

EVIDENCE, NOT ADJECTIVES

I have built this instrument.

Not as a concept. As live reporting in a digital agency, supporting senior leadership across many concurrent client accounts.

MEASURED

Weekly utilization and burn

Billable hours per client computed against contracted hours, with burn rate, delivered to leadership on a schedule. Nobody requested it and nobody assembled it by hand.

GATED

Intake and quality

Request forms wired straight through to tracked tickets with owners attached. QA checklists applied on creation and reset when work reopens, so re-review never inherits old ticks.

SURFACED

Rework as a trend

Reopened work exported on a schedule so quality problems could be reviewed as a pattern rather than argued about case by case. Overdue and SLA risk flagged early.

SCALE

40+ automation rules, 9 scripted jobs, 8 integrations

Across Jira, Tempo, ScriptRunner and Google Workspace. Two paid automation subscriptions retired and replaced with scripts the team could read and change.

FINANCE SIDE

Monthly financial reporting in QuickBooks and Stripe

Supporting leadership review of $150,000 in monthly revenue, alongside invoicing, vendor payments and expense reconciliation.

CREDENTIALS

Google Project Management Professional Certificate and Google AI Essentials

Plus Anthropic AI Fluency and Model Context Protocol. 31 certifications in total, every one independently verifiable.

> "Paul is dependable, highly organized, and always willing to step in wherever support is needed. His attention to detail, problem-solving skills, and commitment to keeping operations running smoothly made him an invaluable part of the team.
>
> Mary Joy Bertulfo · Executive Assistant · Worked together 2+ years

HOW TO START

Four weeks of honest data, before you change anything.

You do not need a new pricing model or a new tool. You need to know your real second number, and almost nobody does on the first attempt.

OPTION 01

Measure one client properly

Pick the account you suspect is your worst. Four weeks of accurate hours against contracted hours, with rework tracked separately. You will know whether it is a pricing problem or a scope problem.

OPTION 02

Let me build the weekly report

Burn against contracted hours, per client, arriving without anyone requesting it. Two weeks to build, and it keeps working after I have finished setting it up.

OPTION 03

Run the audit first

The Operations Audit takes ten minutes and scores whether your business runs on systems or on people. If measurement scored lowest, this brief is where to start.

WHAT I WOULD EXPECT YOU TO FIND

Real utilization lower than reported. One account absorbing far more unbilled attention than any other. And at least one leak nobody had ever been given responsibility for.

Available now for remote work

Chief of Staff · Operations · Senior Executive Assistant · Project Manager
Tell me which client you suspect and I will tell you what I would measure first.

pacardopaul18@gmail.com
linkedin.com/in/paulpacardo
me.kabuhayan.app

Sources: Service Performance Insight, Professional Services Maturity Benchmark, on utilization and net margin. The Wow Company BenchPress survey on director billable utilization. Published agency benchmark ranges for utilization, realization and net margin. Much of the commentary in this area is published by time-tracking vendors and fractional finance firms; where a claim could not be traced to a named research body it has been excluded. The arithmetic on page two is not sourced because it is multiplication. Figures are third-party research, not results I am claiming.