

SMPS FOUNDATION

Measuring for Success: A Look at Hit Rates & Other KPIs in the A/E/C Industries

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EXECUTIVE SUMMARY

Measuring the success of sales and marketing efforts is a hot topic in the A/E/C industries and often calls for an evaluation of hit rates. However, the way firms calculate this metric varies, making it difficult to create an industry standard.

In March of 2015, the SMPS Foundation began a collaboration with the Southern Illinois University Edwardsville Master of Marketing Research program to understand the tools and processes that companies use to track their success on winning projects. The university, one of only a few that offer this type of marketing research program, provided the SMPS Foundation with third-party qualitative and quantitative research to study hit rates and how they are calculated among different firms, as well as to identify other types of key metrics used to improve future performance.

Key Performance Indicators (KPIs)

- + Quantitative, reportable measurements that can be used to determine how close a person or firm is to achieving an objective.

Hit Rates

- + The ratio of wins to the number of projects you pursue.



What are the standard hit rates in the A/E/C industries, and how are companies using them to improve performance?

The objective of the partnership between the SMPS Foundation and SIUE was to look at the tools and processes companies in the architecture, engineering, and construction industries use to track their marketing success. The team developed three research questions with objectives for each.

1. How do companies in the A/E/C industries track their success of winning projects?

- + Determine the most common methods used when calculating hit rates.
- + Determine the effectiveness of a firm's hit rate process and explore relationships among a variety of variables.
- + Determine the types of projects that firms pursue.
- + Explore how hit rate tracking and calculation varies among various firmographics.

2. How is the hit rate metric used to improve future performance?

- + Understand the impact that a hit rate process has on a firm's strategy.
- + Understand how companies use hit rates.

3. Apart from hit rate, what other key performance indicators do companies in the A/E/C industries utilize?

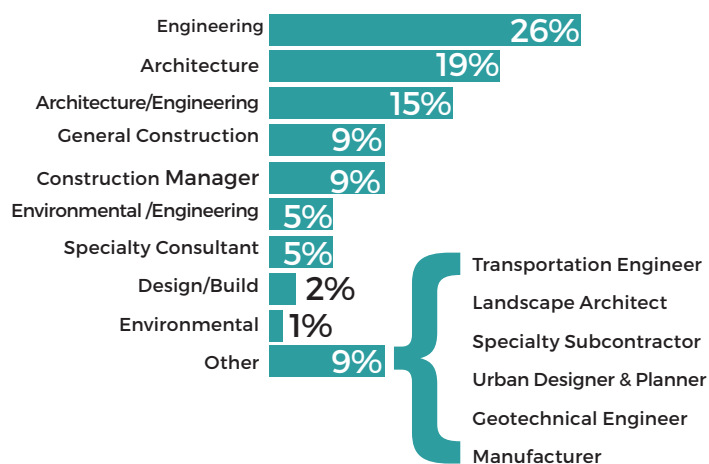
- + Identify common key performance indicators that are utilized within the A/E/C industries.
- + Evaluate the reasons for using the specified performance indicator.
- + Determine the most used key performance indicators among various firmographics.



Prior to administering the electronic survey, two SIUE research students conducted secondary research about hit rates in the A/E/C industries, then interviewed 16 members of the Society for Marketing Professional Services via telephone to gain insight into the subject of hit rates and to inform the questions for the subsequent survey.

The electronic survey was administered on July 1, 2015, and received 303 responses. Following the electronic survey, the students and members of the Informed Strategies Committee performed follow-up phone interviews to 7 respondents to gather more qualitative information.

Following is a breakdown of the type of firms that responded.



KEY FINDINGS

Following are some of the key findings from the respondents:

GENERAL

- + More than 50% submit more than 10 proposals each month.
- + 15% submit more than 50 proposals each month. Nearly half of all firms compete for at least 70% of their projects.
- + 85% are familiar with tracking hit rates.
- + 33% track hit rates monthly, and 33% track quarterly.
- + 60% believe there is a need for an industry-wide hit rate benchmark.

METHODS

- + 92% of those tracking hit rates use the method of **total number of proposals submitted to total number of proposals won**. 100% of respondents in architecture firms use this method. 94% of respondents in engineering or construction firms use this method. 85% of respondents in architecture/engineering use this method.
- + 38% track hit rates based on the **total dollar value of proposals (proposed fee) submitted to the total dollar value of projects won**.
- + 33% track hit rates based on the **total number of proposals shortlisted to the total number of projects won**.
- + 9% track hit rates based on the **total dollar value (proposed fee) shortlisted to total dollar value of proposals won**.
- + 8% use another method to track hit rates.

Tracking hit rates



Track hit rates monthly



Track hit rates quarterly



EFFECTIVENESS

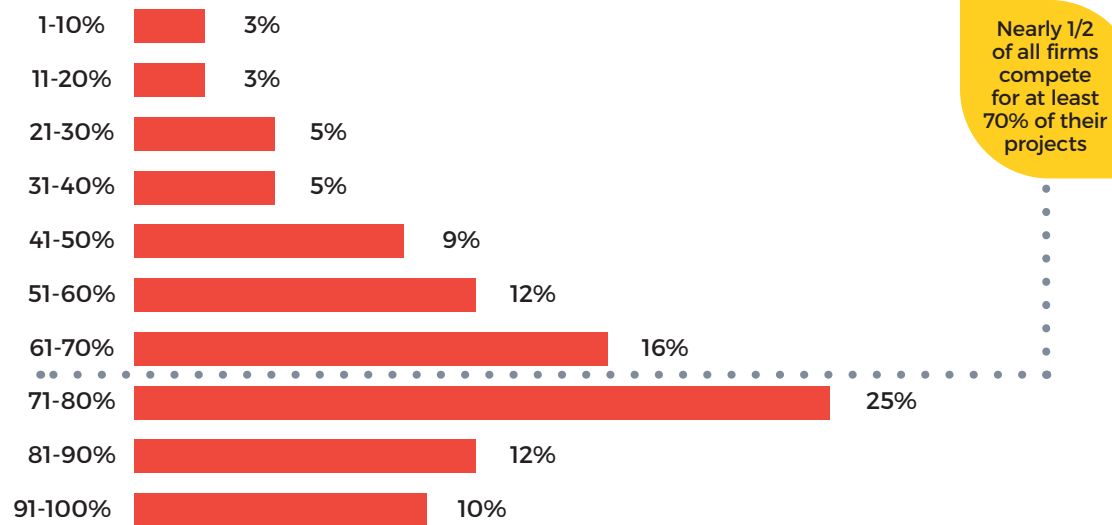
- + Respondents who track hit rates by using multiple methods tend to rate effectiveness higher compared to firms using only one method.
- + 64% consider their hit rate method effective.

IMPACT

- + 93% use hit rates to improve the go/no-go process, and 77% use hit rates to improve the proposal process. 54% percent use hit rates to improve the interview process.
- + 52% claim that their hit rate method has a very high impact on the overall marketing and business development strategy.

Recognizing the variety in the type of firm and tracking methods, the average current hit rate for respondents using the total number of proposals submitted to number of proposals won was 41.81%. The average hit rate using total dollar value of proposals submitted to dollar value of proposals won was 46.07%.

Type of Projects: Competitive



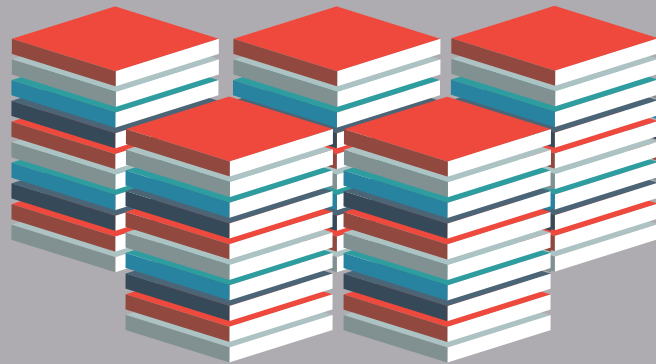
50%

of firms submit more than 10 proposals per month

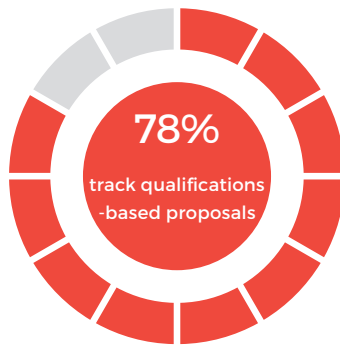


15%

of firms submit more than 50 proposals per month



How respondents track hit rates

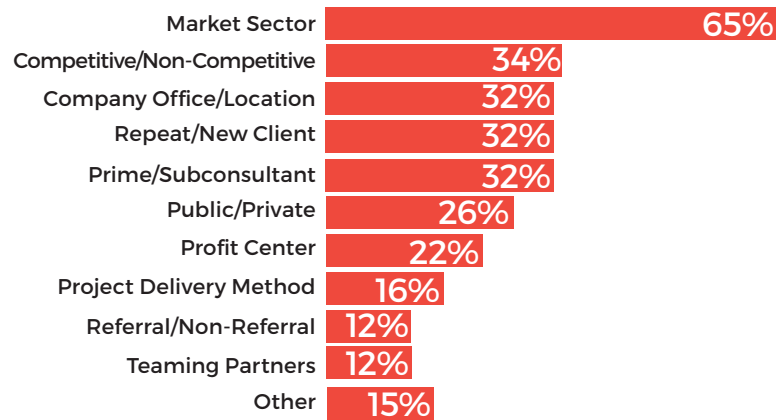


HOW AND WHY FIRMS TRACK HIT RATES

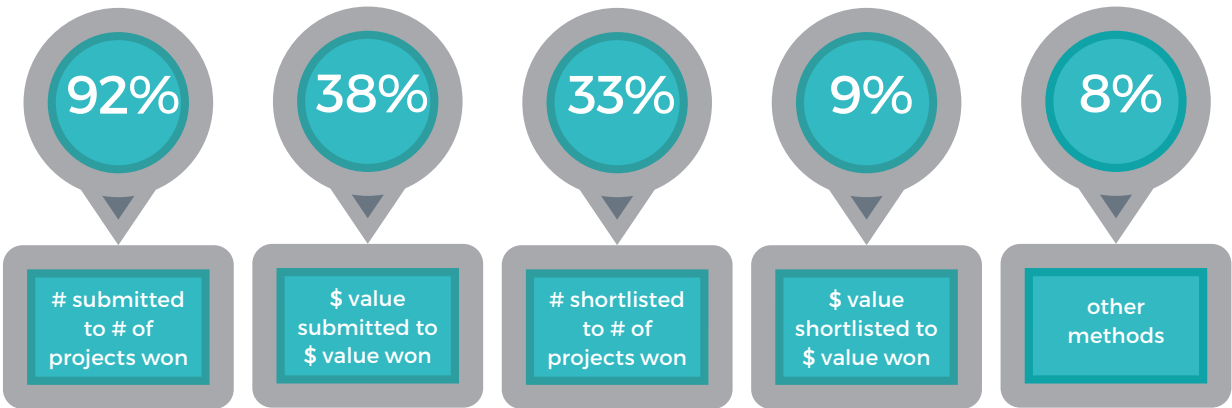
The most commonly used method of tracking hit rates—at 92%—is the total number of proposals submitted to total number of projects won. More than half of respondents consider a project won after verbal/written notification rather than waiting for a signed contract to mark it as a win. There is a significant drop in the next most commonly used method—at 38%—for dollar value (or proposed fees) of proposals submitted to dollar value of projects won. At least 15% of respondents use more than one method of tracking hit rates, with only 8% using a method other than the four commonly used. Respondents who track hit rates using multiple methods tend to rate effectiveness higher compared to firms using only one method.

Many firms are using these methods simply because it's easy to track and that's how it's been done historically. Others are using these methods to evaluate current marketing efforts, and some use the rate to better focus their efforts.

Ways to break out hit rates:

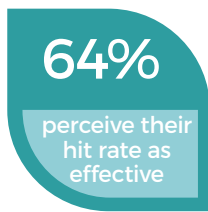


Most commonly used method of tracking hit rates



74% of all respondents use hit rates to improve future performance.

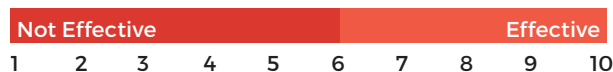
THE EFFECTIVENESS OF HIT RATES



Respondents were asked to rank on a scale of 1 to 10 the effectiveness of their hit rate method in terms of understanding their project pursuit performance. A ranking from 1 to 6 was considered not effective, and 7 to 10 was

considered effective. 64% of respondents perceived their hit rate as effective. 36% viewed their hit rate as ineffective. Ranging from 60 to 72%, there was not a large variance on how effectiveness was rated by type of firm.

Effectiveness of hit rate

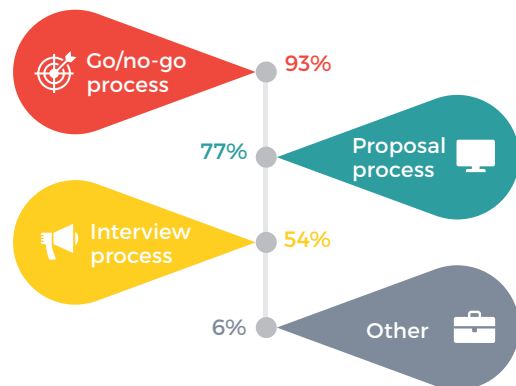


Effectiveness by type of method ranged from 63% for number of proposals to wins to 73% for number of proposals shortlisted and dollar value shortlisted to wins. One respondent wrote, “We are able to determine our performance in different regions and tailor our material and pricing to be more effective as we grow into new markets.” Another firm targets specific clients that have a low hit rate. For yet another firm, hit rates are a “significant part of the conversation” during annual reviews for business development staff, and therefore, they work to make it more effective. Several respondents also believe in the effectiveness of hit rates because it has made an impact on go/no-go decisions. Rather than tracking current hit rates, one respondent shared that they track the change in hit rates over time to get a “quick measure of the effectiveness of certain business strategies.”

Hit rates are also used to determine:

- + Effectiveness of client engagement.
- + Trends (e.g., growing markets).
- + Market focus.
- + Business development strategies.
- + Staffing allocation.
- + Teaming considerations.
- + Bonuses.
- + Competitive analysis.
- + Performance of staff.
- + Training needs.
- + Efficiency of process.
- + Client satisfaction.

How firms use hit rate to improve future performance:



“When we are subconsultants, it is not as effective as an indicator of our performance as it is an indicator of how well our prime partners performed,” stated one respondent.

When asked, “How much impact does your hit rate method have on the overall marketing or business development strategy,” 52% believe their hit rate method has a high impact based on the 1 to 10 scale.

Many respondents felt that hit rates were ineffective simply because it was only one piece of the puzzle. Some firms track hit rates but never discuss the ratio so it doesn’t impact decisions. Another factor in the effectiveness of hit rates is the prime versus sub-consultant role.

AVERAGE HIT RATES

More than 50% of firms submit more than 10 proposals each month, and 15% of the firms submit more than 50 proposals each month.

Based on the SMPS Foundation survey, the average hit rate of all methods was 42.07% in July 2015. Engineering firms had the highest average hit rate (44.21%). Construction firms averaged 37.91%, and architecture firms averaged 41.39%.

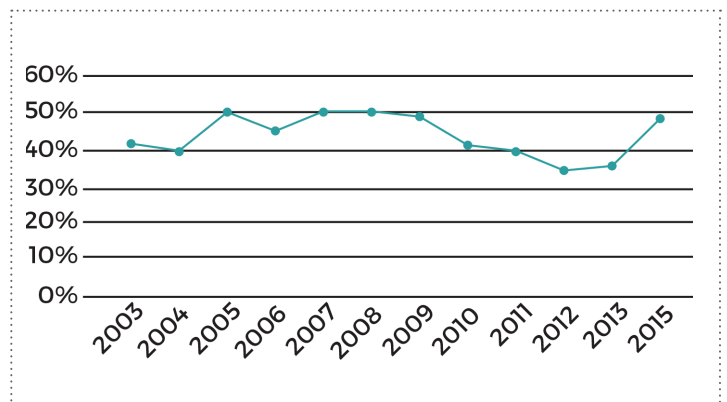
This average hit rate for 2015 is in line with historic data collected by PSMJ, which measures the percentage of proposals awarded to the total number of proposals submitted.

According to 2016 data from Zweig Group, which surveys architecture, engineering, planning and environmental consultants, “firms won an average of 41% of their submitted proposals.” The company also ranks firms according to a three-year growth rate in gross revenue. The fast growth firms outperformed the overall average hit rate by an increase of 5%. Fast growth firms also submitted an average of 507 proposals for the year, while the overall average was 332.



Source: Zweig Group

PSMJ hit rate trends



One respondent uses KPIs “to remind our staff that a critical revenue stream for us is in maintaining happy clients that lead to repeat business.”

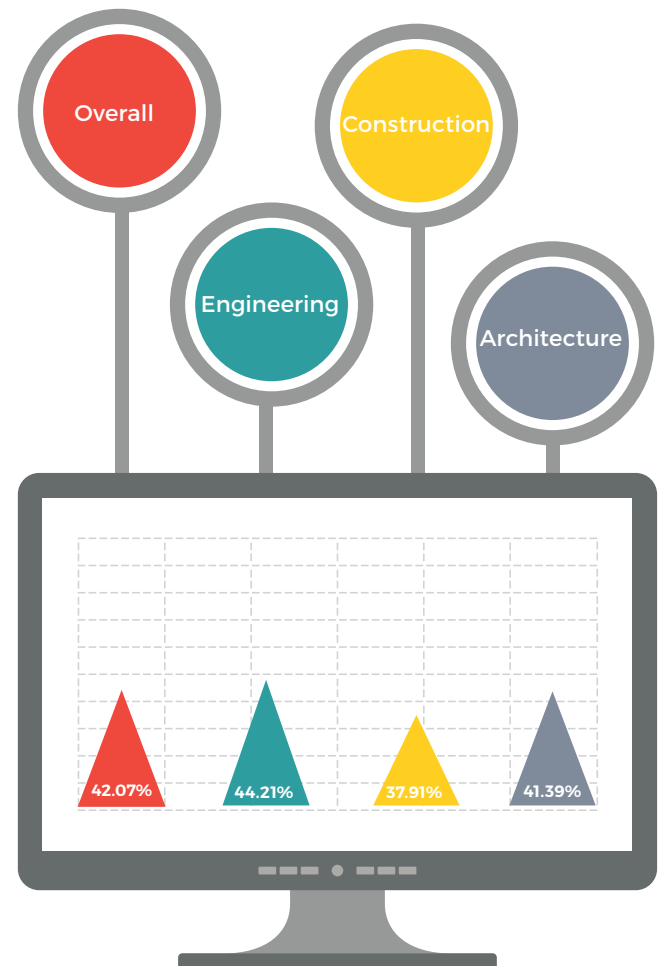
OTHER KEY PERFORMANCE INDICATORS

Firms are using several leading indicators that could predict or signal an increase/decrease in their hit rate, including the following:

- + Potential of future pipeline in dollar value and volume.
- + Actual proposal volume.
- + Economic indicators and market trends.
- + Projected backlog.
- + Client touch points.
- + Social media and website analytics.
- + Direct vs. indirect marketing hours.
- + Capital funding, referenda and state/provincial/federal budgets.
- + Workload of other types of A/E/C firms.
- + Client revenues.
- + Design trends.
- + Architectural billing index.

Firms also track a number of other business/marketing key performance indicators. In addition to increasing success, predicting staffing needs, and understanding and improving a firm's business development strategy, firms also use KPIs to bring credibility to and assess the effectiveness of the marketing department. One respondent wrote, “Our KPIs, while typically qualitative, provide a pulse on our client base and portfolio quality that can be compared to economic and other financial forces. By focusing too much on a single KPI we begin to alienate the indicators that give us the ability to be nimble with markets and economic cycles.”

Average hit rate by firm type



BARRIERS TO A BENCHMARKING STANDARD

One of the biggest barriers to developing a benchmarking standard for the A/E/C industries is the varied role of architects, engineers and construction firms. For example, subconsultant firms have a more difficult time predicting the outcomes of pursuits since their probability of success is dependent on who they team with.

Another issue that can skew the results of a benchmarking standard is the terminology related to hit rates. For example, a “win” in many but not all firms is marked when the client verbally notifies the firm. Similarly, “proposals” in one company may only include qualifications with fee or may include pursuits that had no marketing effort (non-competitive). 87% of respondents track fee proposals when calculating hit rates; 78% include qualification-based submittals, and 49% include simple letter proposals.

Since A/E/C firms use a wide variety of software platforms to house their marketing information, tracking and reporting the hit rate may have different variables.

TAKEAWAYS

TRACK MORE, NOT LESS

Do not consider the hit rate as the only measure of a successful firm. There are times when a firm may have a high hit rate but is not profitable. The hit rate can provide valuable information about where marketing efforts are successful and where there are areas for improvement, but it does not always tell the whole story.

DISTINGUISH PRIME VS. SUB HIT RATES

Separate average hit rates when serving as prime versus serving as a subconsultant. Even though the subconsultant hit rate may be different than the prime, it still provides a basis of information that can be measured and improved. When tracking as a subconsultant, break down the information to understand which teaming arrangements are most effective. If you are teamed with multiple firms and one wins, understand what differentiated them from your other prime partners.

SEGMENT THE DATA

Break down your hit rate by multiple factors to gain a deeper understanding of the types of projects your firm is winning or losing. Factors might include: shortlisted, market sector, client, reasons for winning or losing, and amount of time spent pre-proposal on research and client relations. While it can be more sensitive, some firms also break down their hit rate by principal or project manager, which can serve as a catalyst for additional training or strategic changes in which projects are pursued and how. The more you can break down specific hit rate data, the more information you'll have to work with and be able to focus efforts in certain areas. Some CRM systems can easily segment hit rate data by multiple criteria.

USE STANDARD LANGUAGE

Standardize the language of the factors involved in the basic hit rate. For example, a “win” could be marked when the client verbally notifies the firm they won the project, and “dollar value of proposals” could be the proposed net fee of the firm tracking it. “Proposals” could be defined to mean qualifications and/or fee submitted for any specific project, not just an introductory brochure not knowing what a future project might be. Dead projects could be taken out of the equation. Due to their unique nature, it's difficult to measure indefinite delivery/indefinite quantity contracts (IDIQs) unless there is a specific competitive project pursuit (i.e., a company is selected for IDIQ but still has to compete for specific projects). Repeat client

work that is given to the firm with no competition could also be universally excluded in the hit rate. Defining and standardizing the language of the variables would enable like comparisons across the board.

EDUCATE STAFF AND FOCUS ON IMPROVEMENT

Provide all staff with a better understanding of the metrics being tracked, how they are calculated, why it's important, and how to use the information to improve firm performance. Understanding the industry average for your type of firm is helpful, but more importantly, focus on increasing your hit rate over time. Hit rates should be reviewed on a monthly basis so that some changes can be implemented quickly. Once tracked monthly, quarterly and annual reports are usually easily prepared and can reveal trends over time.

Ideally, the client debrief should be a standard process for every project that is won or lost. If a hit rate is below average, below are some other areas to consider:

- + Is the go/no-go process being followed?
- + Does the go/no-go criteria need to be changed?
- + At what stage of the pursuit process were the most projects lost?
- + Does the firm need to increase its experience or make a strategic alliance in a certain market?
- + Are specific team members having difficulty closing the deal?
- + If the firm isn't making the shortlist, does marketing collateral need to be enhanced?
- + Were client benefits demonstrated in the submission?

- + Does the team need additional presentation training?
- + Was adequate time allotted to interview preparation?
- + Did the firm differentiate itself enough?
- + What kind of projects is the firm winning? Should more effort be devoted to pursuing those?
- + Did the team have the right intelligence prior to submitting?

Conclusion

While there are many variables in tracking hit rates throughout A/E/C industries, there is a benefit to having a metric for evaluating a firm's progress. The hit rate provides a base line over time for firms to improve their success rate and should be used in conjunction with other key performance indicators such as profitability, market trends, and backlog. The more specific the hit rate is in terms of discipline, market, and client type, the more useful it is. However, the information is only valuable when it is used to inform decision-making and improve future performance.

Additional Resources

Matt Handal, My 2014 Proposal Hit Rate: Good or Bad?, October 28, 2014

Sally Handley, FSMPS, Metrics I: Measuring ROI of Marketing, Marketing Handbook for the Design and Construction Professional Third Edition

Lisa Rhatigan, MBA, Metrics II: Measuring ROI of Sales, Marketing Handbook for the Design and Construction Professional Third Edition

Michael Ellegood, P.E., Six Rules to Improve Your Hit Rate, PSMJ Project Management, May 2014

Bill Scott, Strategic Sales: Work Smarter—Not Harder—to Increase your Win Rate, Marketer, April 2015

2013 ZweigWhite Marketing Survey of Architecture, Engineering, Planning & Environmental Consulting Firms

Special thanks to PSMJ and Zweig Group for sharing current survey data.

Appendix

Participant Firmographics

- A2 Number of Employees**
- A2 Number of Marketing/BD Staff at Firm**
- A2 Role in Projects: Prime vs. Subconsultant**
- A3 Primary Position Within Firm**
- A3 Region of Company Headquarters**

Hit Rate Tracking

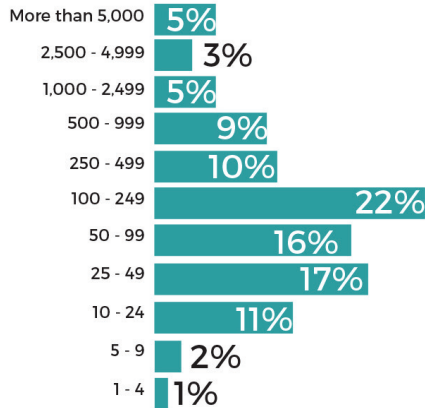
- A4 Familiarity with Tracking Hit Rates**
- A4 Responsibility of Tracking Hit Rates**
- A5 Frequency of Hit Rate Calculation**
- A5 Method of Tracking Hit Rates**

Edited Responses

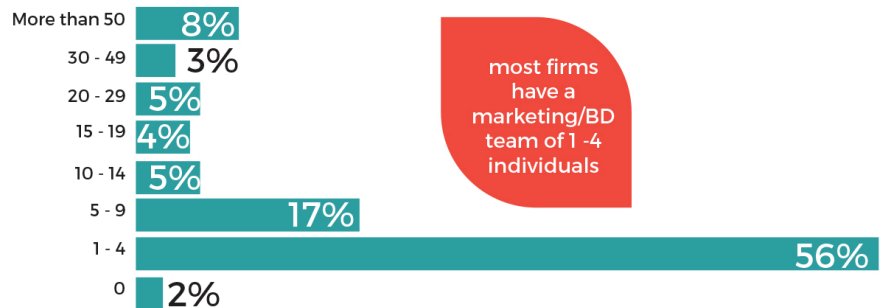
- A6 “What, if any, leading indicator measures does your firm track that predict or signal an increase/decrease in the hit rate?”**
- A6 “Other than hit rate, what business development/marketing key performance indicators does your firm measure?”**

PARTICIPANT FIRMOGRAPHICS

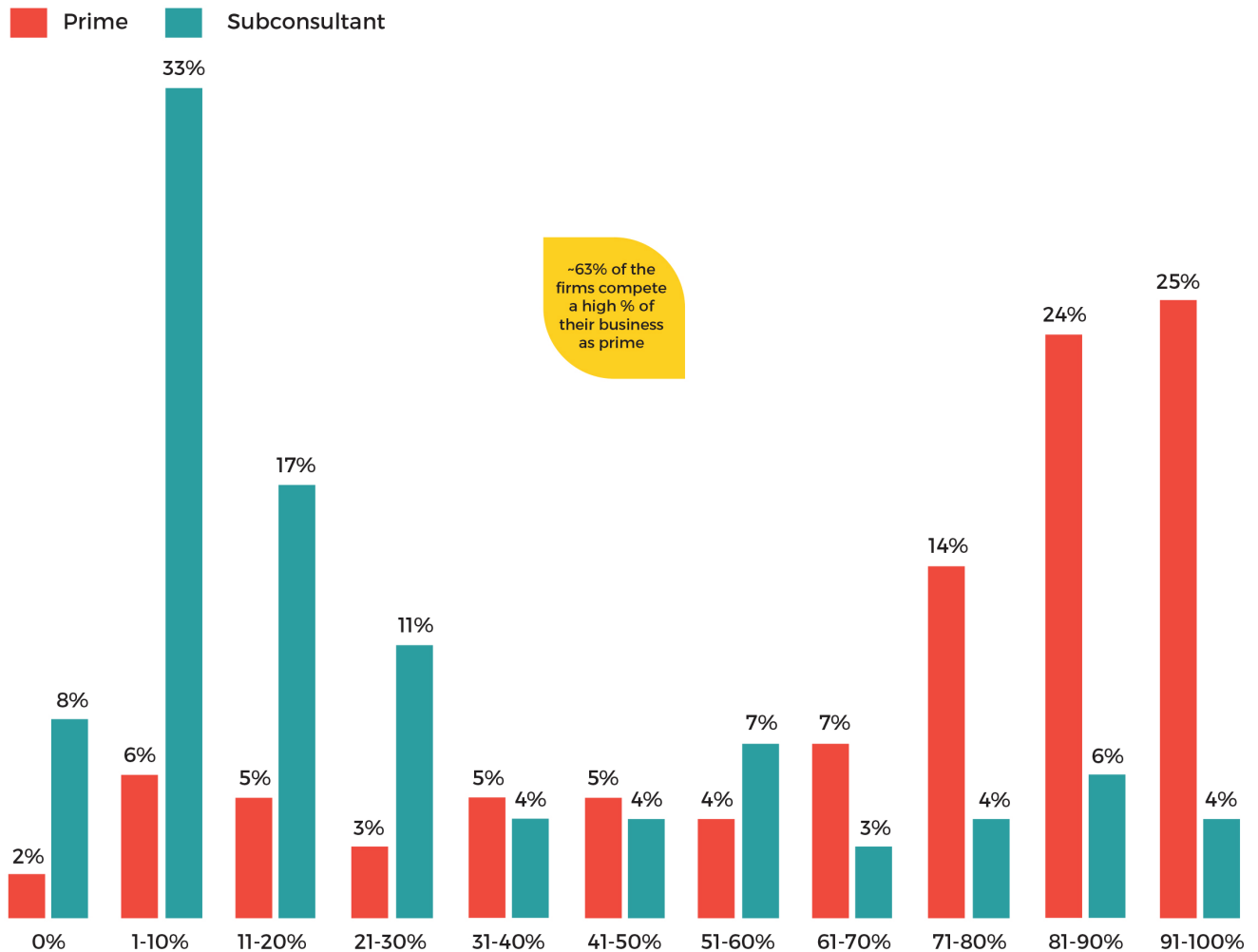
Number of Employees



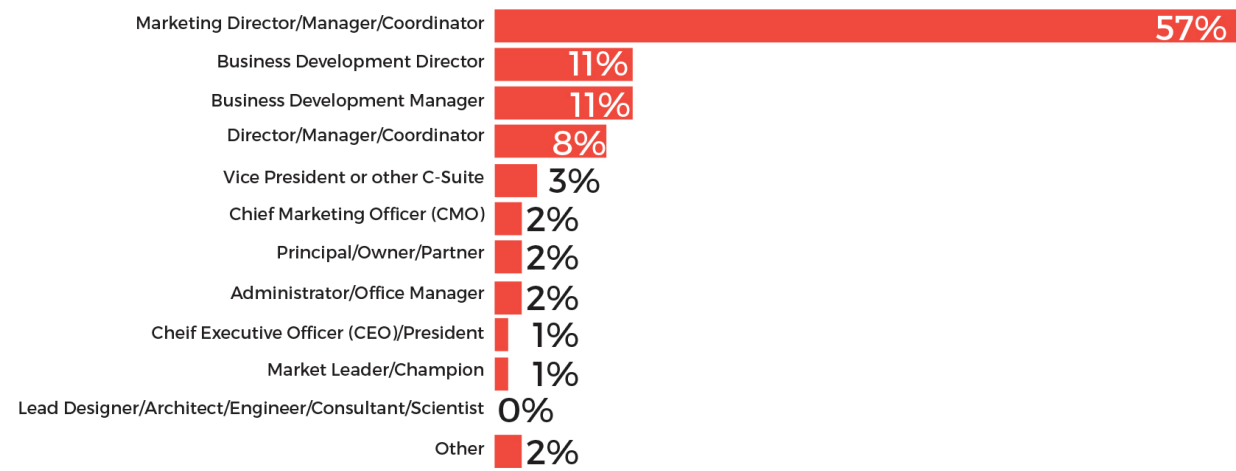
Number of Marketing/BD Staff at Firm



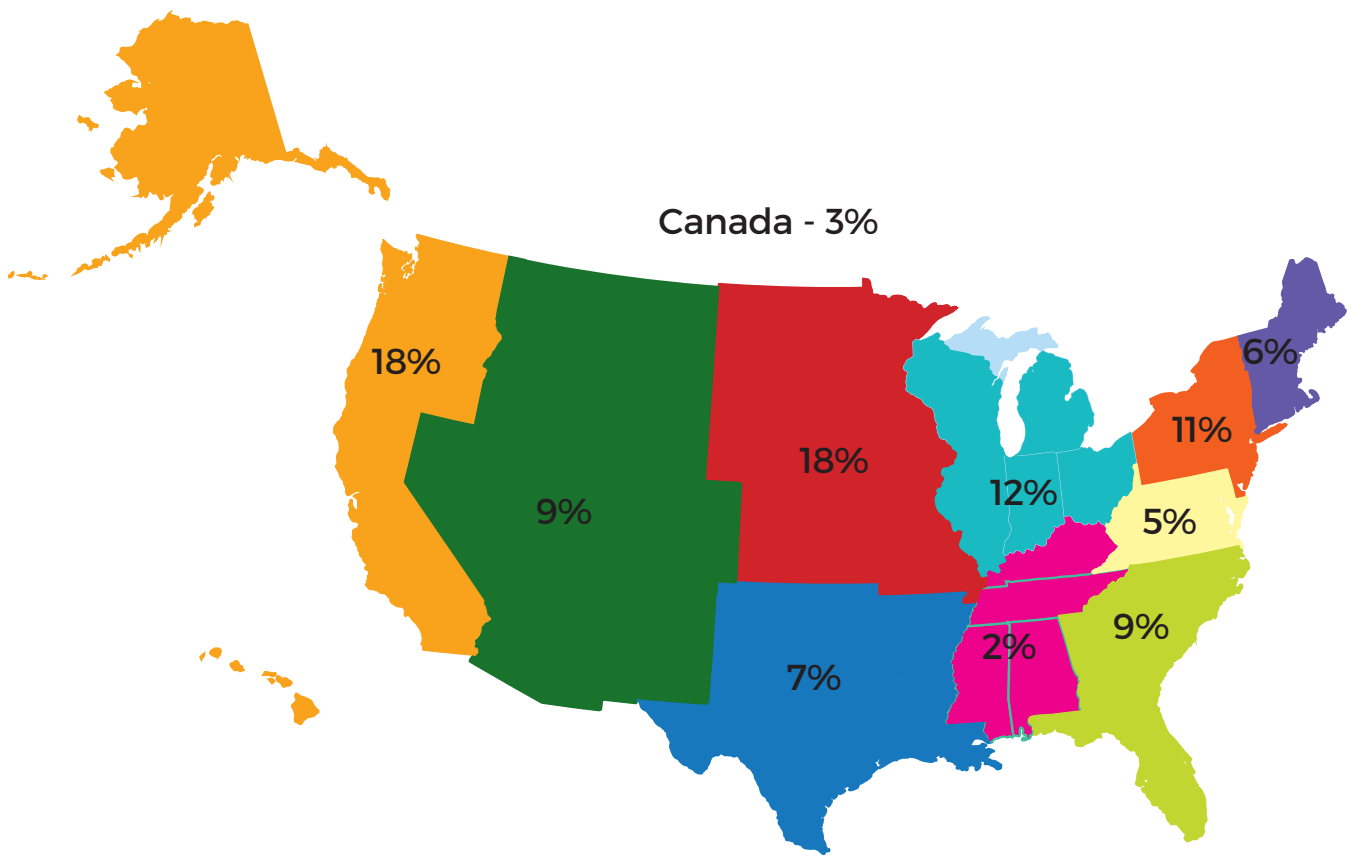
Role in Projects: Prime vs. Subconsultant



Primary Position Within Firm

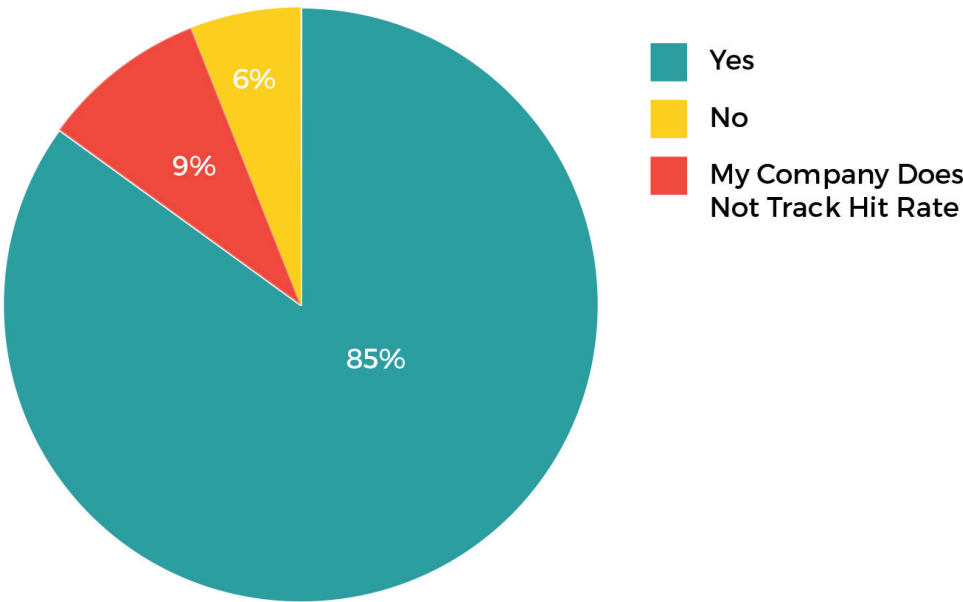


Region of Company Headquarters

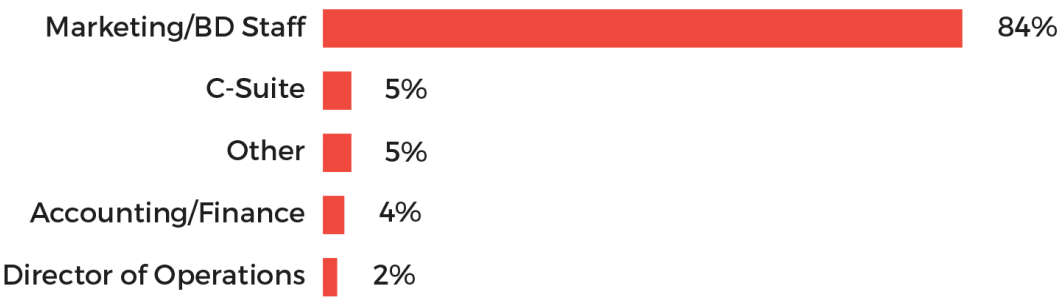


HIT RATE TRACKING

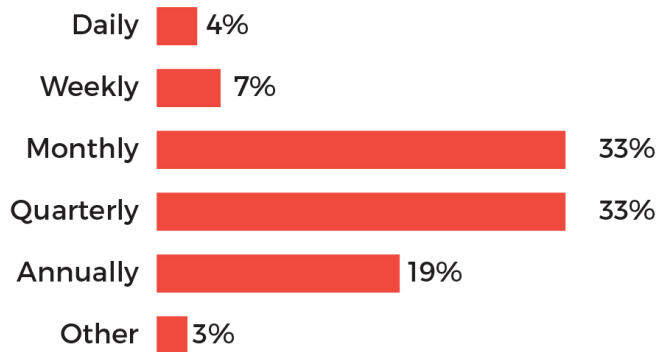
Familiarity with Tracking Hit Rates



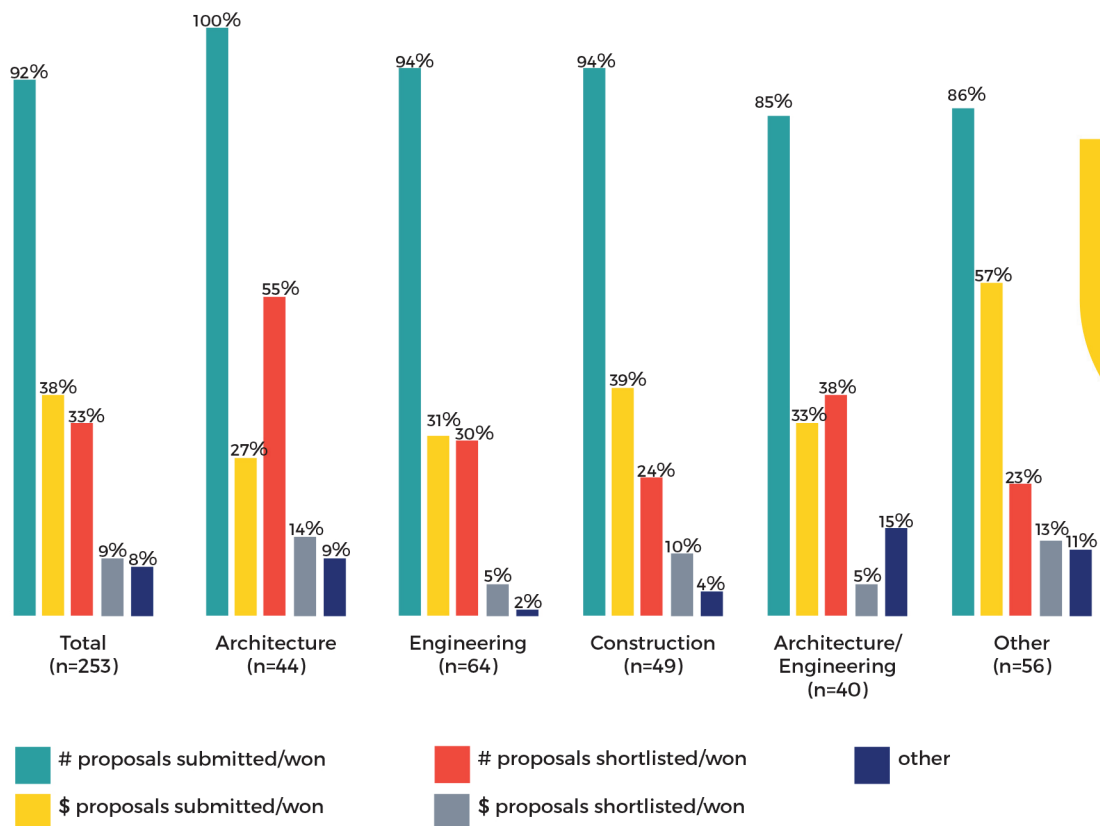
Responsibility of Tracking Hit Rates



Frequency of Hit Rate Calculation



Method of Tracking Hit Rates



EDITED RESPONSES

Below is a summary of comments by respondents regarding other KPIs.

WHAT, IF ANY, LEADING INDICATOR MEASURES DOES YOUR FIRM TRACK THAT PREDICT OR SIGNAL AN INCREASE/DECREASE IN THE HIT RATE?

- + Architectural billings
- + Client analysis
- + Client relationship strength value
- + Client revenues/funding
- + Client surveys/references
- + Client touches
- + Competition research
- + Construction spending/starts
- + Construction/development trends
- + Contract awards
- + Design activity
- + Dodge market analysis data
- + Economic conditions/forecasts/trends
- + Fees
- + Funding sources
- + Future pipeline/backlog
- + Go/no-go percentage threshold
- + Healthcare and Veterans Administration system expenditures
- + Investment in capital
- + Legislative measures
- + Market sector trends
- + Market share
- + Master plans
- + Onvia reports
- + Political election outcomes
- + Proposal or sales volume
- + PSMJ data
- + Real estate trends
- + Referrals/awards volume
- + School and court construction expenditures
- + Staff utilization
- + State aid rates
- + State budgets/funding/referenda

OTHER THAN HIT RATE, WHAT BUSINESS DEVELOPMENT/MARKETING KEY PERFORMANCE INDICATORS DOES YOUR FIRM MEASURE?

- + Action plan and goals met
- + Advertising discount codes
- + Aged accounts receivable
- + Articles published
- + Authorizations
- + Awards won
- + Backlog
- + Billability
- + Billings
- + Bookings
- + Brand impressions
- + Break-event rate
- + Budget vs. actual costs
- + Campaign ROI
- + Cash flow
- + Client acquisitions
- + Client revenues
- + Client satisfaction
- + Client/prospect interactions
- + Close rate
- + Competitive intelligence
- + Cost per pursuit
- + Debriefs
- + Effectivity
- + Employee retention
- + Go/no-go scores
- + Gross and net revenues
- + Individual performance
- + Job starts
- + Margins
- + Market distribution
- + Market share
- + Market trends/history
- + Marketing budgets
- + Marketing hours
- + Marketing/BD expenses
- + Multiplier
- + Net fees earned
- + Net multiplier
- + Net service revenue
- + Overhead rate
- + Phone calls
- + Profit
- + Profitability
- + Profits to earnings ratio
- + Project management percentage
- + Project performance
- + Projected fee vs. goals
- + Proposal feedback
- + Pursuit ROI
- + Pursuit/proposal proposal volume
- + Referrals
- + Relationship value
- + Repeat clients
- + Sales efficiency
- + Sales pipeline
- + Social media analytics
- + Speaking engagements
- + Staff utilization
- + Teaming results
- + Tradeshow ROI
- + Trends
- + Utilization rate
- + Website analytics

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In 2016, the SMPS Foundation launched an initiative to offer a series of reports based on topic-specific research under the name Informed Strategy Series.

ABOUT THE FOUNDATION

The SMPS Foundation, a not-for-profit 501(c)(3) organization established by the Society, has a mission to discover, in an ever-changing marketplace, what makes A/E/C organizations successful in marketing and business development. Its purpose is to deliver research, marketing intelligence and expert analysis to inspire success and improve bottom-line results for SMPS Foundation stakeholders.