Baxter Labs

The 5 Profit Leaks Hiding in Every $5M–$50M Professional Service Firm

A field guide for owners and managing partners

Before we start.

I've spent my career inside professional service firms, sitting in the finance chair, managing the P&L, and trying to figure out why the numbers on the income statement don't match the feeling in my gut. If you're reading this, I think you already know something is off. Revenue is growing. The team is growing. But profit isn't keeping pace, and you can't quite put your finger on why.

You're not wrong. That feeling is almost always right.

This guide walks through the five places I keep finding margin leaking in firms your size: payroll that's drifted past what the revenue supports, vendor sprawl no one owns, billing lag that's quietly financing your clients, software seats nobody's using, and approval bottlenecks that defer revenue you could already be earning. These aren't exotic problems. They're the ordinary ones that accumulate quietly while everyone is focused on winning the next client.

I wrote this because I think you deserve to see the mechanism before you hire anyone to fix it. If even one of these sections makes you uncomfortable, that discomfort is data. Trust it.

Payroll Drift

Here's what this tends to look like. The firm is growing, so leadership hires ahead of demand. New people come on. Revenue keeps climbing. But nobody goes back to check whether each new hire is producing revenue that justifies their fully loaded cost.

> I worked with a 40-person professional service firm doing about $8M in annual revenue. Over 18 months they'd added nine people. Revenue had grown 22% in the same period, which felt great. But when we traced revenue production back to each role, four of those nine hires had no direct revenue attribution and no documented justification tying them to a specific capacity need. The fully loaded cost of those four roles was $340K per year. Not all of that was recoverable, but roughly $180K to $260K was margin that had quietly walked out the door through reactive hiring.

For a $5M–$50M firm, payroll drift typically accounts for $80K to $300K in recoverable profit per year.

> **If I asked you right now to show me the revenue produced by each person hired in the last 12 months, could you pull that report in under 60 seconds?**

Vendor Sprawl

What I keep seeing looks like this. Every department buys what it needs when it needs it. Nobody owns the vendor list. Renewals happen automatically. And over time, the firm ends up paying three different vendors for things that overlap significantly, because each purchase made sense in isolation.

> I looked at the vendor ledger for a $12M consulting firm and found 47 active vendor relationships. Fourteen of those vendors had been added in the prior two years with no competitive bid and no renewal review. When we consolidated overlapping services and renegotiated three contracts that had auto-renewed at list price, the recoverable amount was $145K annually. The managing partner had no idea the firm was spending $38K a year on two separate document management platforms purchased by two different practice groups.

For a $5M–$50M firm, vendor sprawl typically accounts for $60K to $200K in recoverable profit per year.

> **Do you feel confident that you could name every vendor your firm paid last quarter and what each one does?**

Billing Lag

Here's the pattern. The work gets done. The invoice goes out sometime later. The client pays sometime after that. And in the gap between work-complete and cash-received, the firm's working capital is tied up funding operations out of pocket. Worse, write-downs accumulate quietly because nobody is tracking the delta between billable hours worked and hours that actually make it onto an invoice.

> A $22M staffing firm I reviewed had an average of 34 days between project completion and invoice delivery. Their DSO (days sales outstanding) was another 52 days on top of that. So the firm was financing 86 days of operations on every engagement before seeing cash. When we measured the write-downs that were happening between timesheets and invoices, the firm was losing $12K to $18K per month in billable time that never got billed. That's $144K to $216K per year that showed up nowhere on the P&L because it was never recorded as revenue in the first place.

For a $5M–$50M firm, billing lag and unmeasured write-downs typically account for $50K to $250K in recoverable profit per year.

> **Does it feel like your cash position should be stronger than it is, given the revenue you're producing?**

Software Redundancy

The shape of this one is familiar. The firm adopts a new platform. The old one stays active because a few people still use it, or because nobody remembers to cancel it. Seats get purchased for employees who left six months ago. And renewal notices go to a distribution list that nobody monitors closely.

> A $9M architecture firm was paying for 74 licensed seats across four project management and collaboration tools. 23 of those seats hadn't been logged into in over 90 days. Two of the four tools did essentially the same thing, purchased 18 months apart by different office locations. The annual spend on redundant and unused software was $67K. Not a staggering number on its own, but it had been compounding for three years because every renewal was automatic and nobody had done a seat-count review before any of them.

For a $5M–$50M firm, software redundancy typically accounts for $30K to $120K in recoverable profit per year.

> **If your software contracts all renewed tomorrow, could you tell me how many active users you have on each platform?**

Approval Bottlenecks

I keep seeing this one in firms that have grown past the size where one-person oversight made sense. One partner or owner approves everything: pricing decisions, hiring decisions, vendor selections, client proposals. The intent is quality control. The effect is a queue. And every day something sits in that queue, the firm is deferring revenue it could already be earning.

> A $15M professional service firm had a single managing partner who approved all new engagement proposals. The average time from proposal-ready to signed engagement was 11 days. When we looked at the bottleneck, 7 of those 11 days were the proposal sitting in the partner's inbox. Across the firm's pipeline, the delayed revenue from that 7-day queue was worth roughly $190K per year in deferred billings. The partner wasn't being negligent. There was simply too much running through one person, and nobody had built a delegation framework with clear authority limits because the firm had grown past the size where one-person approval made sense.

For a $5M–$50M firm, approval bottlenecks typically account for $40K to $200K in deferred revenue per year.

> **Does it feel like decisions in your firm are waiting on one person more often than they should be?**

What to do with this.

You don't need to hire anyone to start. Pick one of the five sections that made you the most uncomfortable and do one thing this week. Pull a single vendor report and sort it by vendor name. Look for duplicates. Or run one utilization query and see if the hours your team is billing match the hours they're working. You already have the data. The question is whether anyone has looked at it through this lens.

If any of the five self-assessment questions in this guide felt uncomfortable to answer, the diagnostic is designed to put real numbers on exactly that feeling. It won't tell you something you don't already sense. It will make the invisible visible, give you a specific roadmap to fix what we find, and hand you a comprehensive package of materials you can take directly to your leadership or Board. Fixed price at $12,500, no scope creep. The typical finding is $200K to over $1M in recoverable profit.

If you'd like to walk through your situation and see if BaxterLabs would be a good fit, I'm happy to do a free 30-minute diagnostic review call. No cost, no obligation, just a conversation.

George DeVries
Managing Partner, BaxterLabs Advisory
george@baxterlabs.ai baxterlabs.ai

