

STAY IN THE BLACK NEWSLETTER

How to Spot Hidden Gaps in Your Margins

By Colin Barnhart · 9 Sep 2025 · 5 min read

Margins are the lifeblood of any project-based business. They determine whether the work you sell actually creates profit or just keeps the lights on. The challenge is that margin gaps often hide in places most leaders don't look until it's too late. By the time you wrap up a project and review the numbers, you might realize that the margin you thought you sold has quietly leaked away. For many businesses, this can become a recurring pattern that erodes profitability and frustrates owners.

The good news is that margin gaps can be found and corrected before they grow into bigger problems. It starts with knowing where they hide.

Bill rates and the math behind them

The first place to look is your bill rates. These aren't just numbers on a rate card, they're the foundation for how you scope, sell, and deliver work. Too often, businesses inherit rates from a previous leader or competitor without testing if they reflect real costs. Ask yourself: when was the last time you revisited how your bill rates were set?

Bill rates should account for the full cost of your team's time, not just base salaries. This includes benefits, taxes, overhead, and the reality of how many hours are truly available to bill. If you're assuming 40 billable hours a week per person, you're already off track. Vacations, sick days, training, and admin work all eat into that total. A more honest view often reveals that your initial assumptions are very different from reality. And then there is utilization by roles, which is a standalone article in itself!

Once you reset your assumptions, you can take a closer look at how your bill rates need to change. I wouldn't expect this to be comfortable, but it's necessary if you want to stop hollow revenue (revenue sold at the wrong price) from creeping into your system.

Utilization: busy isn't the same as profitable

A common myth in service or project-based businesses is that if everyone looks busy, you must be well-utilized. In reality, busyness can easily mask over-servicing and margin leaks. Your team might be spending extra hours polishing deliverables, reworking client requests, or filling time with 'special projects' because managers feel like they have "free" resources on hand.

Those extra hours, while they may be well-intentioned or necessary, are not free. They need to be allocated to the project to see the true cost. When you do, you might discover that a seemingly profitable contract is breaking even, or worse, losing money.

Leaders also need to create a culture where underutilization isn't a badge of shame. If someone is underused, that's not their fault, it's a signal that sales, scoping, or resource planning need attention. And when you choose to over-serve a client, make that decision with eyes wide open, not as an invisible drain on the margin.

The role of culture on your margin health

Numbers tell part of the story, but culture decides how reliable those numbers really are. If employees feel pressure to hide downtime or avoid logging extra hours, your reporting will always be skewed. Transparency is key.

This is where leadership matters. Set expectations that honest reporting helps the business grow stronger and more stable. Encourage your team to call out when projects are under-scoped or when they're asked to put in work that won't be billed. And when you see underutilization, treat it as a chance to sell smarter, not as a personnel failure.

A healthy margin culture doesn't just protect your numbers, it protects your people. They know where the boundaries are, and they understand how their work connects to the company's success.

Revenue recognition and hollow revenue

One of the hardest truths to face is that some revenue isn't really revenue at all. You might have closed a big project, booked the dollars, and celebrated the win, only to realize later that the price didn't cover the true cost of delivery. This is hollow revenue. It looks good on the books but fails to deliver profit.

This is where better data comes in. When you analyze projects against real bill rates, utilization, and costs, you gain clarity on where the margins could have landed. This builds confidence that, had the project been priced correctly, you would have hit your target. That insight is powerful.

Your team will tell you what they can change. You just need to ask them. Then you can decide how to adjust pricing and scoping to get the next round of work to land where it should. This isn't about overnight fixes. Like turning a ship, it takes time. But with every project reviewed objectively, you can see whether you're moving in the right direction.

Building good data habits early

Gut feeling works when you're a small shop with a few projects. But as you grow, intuition breaks down quickly. To get ahead, you need good data habits baked into the culture from the start.

That means tracking hours accurately, reviewing bill rates regularly, and making project margin evaluations routine. Surprise project audits, which force you to scramble to understand why you're not generating income despite a steady workload, can erode trust. It's about creating systems that support open conversations with your team and with your clients. Over time, this builds financial clarity and the confidence to price, plan, and deliver work without second-guessing.

At Black Ink, we see this play out across creative agencies, PR firms, and architecture practices. Businesses often start with good intentions, but without the right grip on profitability, the numbers stop telling the real story. That's where we step in: helping leaders connect the dots between day-to-day operations and long-term strategy. No gaps, no guesswork, just clarity.

Let's wrap this up

Margins don't disappear overnight, they leak through gaps you didn't see. The key is to bring those gaps into the light. Start with your bill rates and test whether they reflect the real cost of your team's time. Look honestly at utilization and resist the myth that busyness equals profitability. Build a culture where transparency matters more than appearances. And challenge hollow revenue by reviewing every project with the right data.

If you're ready to tighten your grip on profitability, don't wait until the next project closes to find out where the money went. Start now, with clear data and frank assumptions, so your next project delivers the margin you planned for.

At Black Ink, we help leaders like you make that shift every day. Let's talk about how you can turn hidden gaps into clear, confident margins.

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