White Paper

Full Sail PARTNERS

Steps to Drive Firm Growth:
Process Evaluation, Benchmarking, and Measuring Data

Contents:

In an ideal world, all an organization would need to succeed is hire great people who do great work.

But in reality, that's what every firm is trying to do. Therefore, success goes to those who take their business to the next level — in part, by evaluating how they operate in terms of process efficiency, and also by tracking and responding to key performance indicators (KPIs). In addition, successful firms compare themselves with competitors to learn from their successes, and at the same time, understand where others' vulnerabilities may create opportunities.

These strategies can overlap, or be independent of each other. For example, a company might conduct a thorough examination of its own project management process, and on a parallel track, benchmark that same process against those used by successful competitors. Or, it could focus only on one of these efforts at a time.

The keys are identifying where one's firm is going to look for insights into improving business processes, committing to implementing a plan to do so and using the results.

The Benefits of Business Process Evaluation

There are shelves and shelves full of books — actually, entire libraries — that offer insights into business process management. There is a simple reason for this: it's one of the most fundamental and effective ways to improve firm growth.

So what areas are involved in a business process evaluation? At a very high level, it's about answering the big questions needed to effectively guide a firm, such as:

- Are business objectives appropriate?
- Are key policies and plans effective?
- Do results validate business strategy?

At a more granular level, this type of inquiry involves examining existing business processes to find pain points, bottlenecks and inefficiencies that could be improved. In this regard, it's a process that every business can benefit from — but especially firms that are project-based, such as professional services firms. For these types of companies, the exercise can point to solutions for:

One firm found 1.8 million reasons to evaluate their business processes.

Why evaluate business processes?

To appreciate the impact of a business process evaluation, consider the case of one of our clients, Wiss, Janney, Elstner Associates (WJE), a 500-person firm based in Northbrook, Illinois.

Challenges:

- *Inefficient paper-based project initiation for 7,000 projects annually*
- *Inaccuracy, inconsistency, and redundancy*
- *Inability to do conflict checks*

Solutions:

- *Annual savings of $1.8 million*
- *Reduction in DSOs of 45 days*
- *The cost to implement paid for itself over 30 times in just one year*

- Streamlining business processes, minimizing redundancy, and saving money
- Gaining insight into operational metrics not readily apparent — such as work backlog
- Making better decisions on uses of internal resources, based on up-to-the-minute data

Choices in Approach

How an organization conducts this type of self-examination depends on its goals, resources, and desired return on expense/effort. For example, it could be highly focused, with internal staff looking at one particular process in one section of the organization. Alternatively, it could involve examining complex processes spanning several separate parts of the organization, or require using an external consultant.

When Full Sail Partners begins any new engagement with a client, we typically start with a business process evaluation. Generally, this involves understanding our client's various front and back office processes — potentially, all processes along the project lifecycle, including:

- Business development tracking
- Estimating and business capture
- Project management and project profitability
- Employee utilization and realization
- Billing, A/R and firm financial reporting
- TQM

Why evaluate business processes? One firm found 1.8 million reasons.

To appreciate the impact of a business process evaluation, consider the case of one of our clients, Wiss, Janney, Elstner Associates (WJE), a 500-person firm based in Northbrook, Illinois. Along with the client's initial concerns, our evaluation identified an inefficient, paper-based process for initiating new projects that required anywhere from several hours to several days per project. Following our business process evaluation and implementation of a paperless process (among other improvements), the client was able to reduce the required time to a few minutes per project. That efficiency gain, multiplied by the approximately 7,000 projects that WJE handles each year, resulted in $1.8 million annual savings, according to WJE's Controller.

Among the potential gains of conducting a business process evaluation, some are not directly tied to process efficiencies. For example, the effort can provide visibility into an organization's work backlog — knowing exactly how much work is in the pipeline, and even more importantly, whether one has the staff on hand to do the work (and if not, specifically what type of staff are needed to fill the gaps). As a result, a firm can make better decisions about whom to hire (and when), and which projects to pursue.

Evaluating ways to improve efficiency and effectiveness is an essential part of guiding an enterprise. Whether it's performed internally in a very focused way, on a broader level by an external firm, or somewhere in between, it has the potential of allowing a firm to reexamine and reengineer its standard operating procedures and in turn, drive greater efficiency and visibility. Both capabilities are critical to consistently delivering value to clients — and increasing profitability and firm growth.

Benchmarkings Role in Measuring Firm Growth

Another key strategy for success is benchmarking. At its most basic level, the practice provides perspective into why some companies perform better than others, and helps business leaders find and exploit opportunities for improving operations and results.

Benchmarking can also stamp out incorrect assumptions that lead to complacency. For example, for some business owners, the easy (and convenient) takeaway from the recent Great Recession is that its pain was spread more or less evenly within each industry sector. The problem is, this often wasn't the case. In fact, in almost every sector one examines, there was a small group of firms that made it through the recession in better shape than their peers, as measured by the most relevant metrics. *Was it just luck, or were they doing things differently?* This is where effective benchmarking can really pay off.

A good place to begin is in understanding the most relevant KPIs in one's industry. For example, our work with clients in project-based industries has put a spotlight on the importance of benchmarking such metrics as:

- Utilization Rate
- Net Labor Multiplier
- Operating Profit
- Current Ratio
- Employee Turnover
- And various others

How to Get Started

There are other KPIs that are broadly used by firms to measure certain factors related to business success. For example, in a recent survey of Full Sail Partners' client organizations [link to survey results], nearly 9 out of 10 firms looked to revenue as the leading indicator of business growth, while more than 7 out of 10 factored in profit margin.

Whichever KPIs are the most useful to an organization's management, the key is to systematically track and monitor them. Hopefully, a firm is already doing this; but if not, there are a number of financial/accounting software packages that can do so. At Full Sail Partners, we offer an alternative solution that tracks this data: Deltek Vision. It also streamlines project management, improves visibility throughout the project life cycle, and allows front and back office functions to more effectively share data and collaborate.

Finding a Good Yardstick

Once an organization has collected sufficient data on its KPIs, the next step is to find external data to compare it to. This is not easy or simple — but still very doable.

Of course, one solution is to hire a consultant to analyze the relevant competitors and metrics. But a far less expensive approach is to find the data one needs on the web — preferably in the form of third-party studies of one's industry.

As a case in point, Deltek publishes an annual performance study of firms in the architecture and engineering field that examines all of the most relevant KPIs for the industry. More importantly, the study mines through the data to isolate some very interesting differences between the highest performing firms and the rest.

Among other observations, the most recent study found that overhead and utilization rates were basically the same at all the firms studied. But the high performing firms were unique in sharing several key characteristics, including that they had improved efficiencies in their project lifecycle and had developed a defined set of company standards.

Other types of freely available studies can inform the benchmarking process as well. For instance, the marketing firm Hinge has produced a series of reports that examine high-growth firms in a variety of professional services industries. Like the Deltek study, Hinge's study found interesting lessons in how the most successful firms are doing things differently. It also exploded some myths along the way — like the widely-held belief that a tendency toward high growth among certain smaller firms is a statistical fluke.

The key is, by doing a little digging, an organization can readily find some metrics of the top-performing firms to compare itself to — and more importantly, take lessons from.

Business Benchmarking: 4 Key Steps

The business benchmarking process generally boils down to four key steps.

1. Learn from others.

If you're new to benchmarking, it may be helpful to explore how other organizations do benchmarking, and see how your organization compares. Fortunately, there are many industry experts and organizations that share information about their benchmarking process.

Some of our favorites are:

- Deltek
- Forrester
- Gartner
- Hinge Marketing
- IDC
- Society for Marketing Professional Services
- Vision Edge Marketing

Of course, there are enormous numbers of additional companies and organizations that benchmark as well, so you may want to explore further.

2. Decide what's important.

The next step is to choose meaningful measurements to use as your standards or benchmarks. Key performance indicators (KPIs) in the form of financial and project-related statistics can provide meaningful insights into company performance, beginning with how your own company has performed over time. For most professional services firms, there are a variety of KPIs that can be helpful in giving an accurate reading on the organization's financial and operational health. Some of the most widely used are:

- Accounts Receivable
- Average Collection Period
- Chargeable Ratio
- Chargeable Ratio times Net Multiplier
- Current Ratio
- Debt to Equity Ratio
- Employee Realization
- Employee Utilization
- Estimate at Completion (EAC)
- Estimated to Complete (ETC)
- Net Multiplier
- Net Revenue per Technical Staff
- Net Revenue per Total Staff
- Overhead before Discretionary Distributions
- Profit on Net Revenues before axes and Distributions
- eturn on Owners' Equity

A firm should consider which of these metrics truly measure success, and establish corresponding benchmarks. These can be based on the firm's historical performance, industry surveys, standards specifically designed for the type of work, the firm's general philosophy, or a combination of factors. When choosing the organizations against which to benchmark your own firm, consider such factors as industry, geography, and size; the more similar they are to you, the more relevant and valid their metrics will be.

3. Track the data.

Once an organization has established which metrics to track, and corresponding benchmarks against which to gauge its performance, the next step is to start tracking. There are a variety of approaches for doing so, from one-off spreadsheets and workarounds (not recommended) to software packages, including accounting solutions that specifically track financial statistics and project management products that specialize in tracking data on individual projects.

5 Benefits from Measuring Growth In Business

Tracking your firm's performance results provides a number of bottom-line benefits to the firm. Here are our top five:

1. **See around corners.**
   First and most importantly, measuring growth allows one to spot emerging issues before they become major problems.

2. **Know who to hire, and when.**
   Tracking growth metrics can help one track project status and determine whether additional staff are needed to get the work done.

3. **Get more context.**
   Monitoring KPIs can provide useful benchmarking data, and a context against which to compare a firm's performance.

4. **Motivate employees.**
   Many top performing firms not only track a specialized set of KPIs, but also make them constantly available to employees.

5. **Build the value story.**
   Measuring growth can be highly beneficial to project based firms that are considering or may be the targets of a merger or acquisition.

A better alternative, however, is a purpose-built ERP such as Deltek Vision, which connects and organizes data from both the front office (i.e., project) function as well as the back office (accounting). This solution can provide a firm with up-to-the minute, comprehensive visibility into all the metrics listed above. Just as importantly, it serves to optimize oversight of the firm's projects and staff, and automates a wide variety of essentially manual processes — including Customer Relationship Management (CRM), business development and more.

Whether one uses a combination of software programs or a comprehensive solution like Deltek Vision, the key is to collect metrics on an ongoing basis.

4. Make data-driven decisions.

The last part of the business benchmarking process basically closes the loop. It involves making sure the right data is getting to the people who need to see it in a timely fashion, and management committing to using the data to make decisions.

For example, schedule-based metrics can help management determine not only if a project is currently on budget, but if it will finish within the overall budget as well. If the EAC is greater than the overall budget, management may choose to either reduce future expenditures or accept that the project will be over budget, and determine where the slippage occurred (such as failure to send out additional services contracts). Of course, this is just one example; management will have a variety of options and decisions to make, based on the specific metric that is underperforming, and how wide the deviation is from the desired benchmark.

One of the keys to success in this part of the benchmarking process is ensuring that management has access to all the metrics they need at any given time. There are manual ways to gather and present this information to management, but automated KPI dashboards, one of the customizable features in Deltek Vision, are a much more efficient way to do so.

Whatever road one takes to identifying and tracking benchmarking information, the process will pay dividends as one's firm gains a more relevant and up-to-date picture of its performance. Just as significantly, it allows the firm to be proactive rather than reactive in addressing underlying issues before they turn into major problems — thus increasing the probability of project and financial success.

When things are busy, it may be tempting to keep one's head down and pound away at the work, with the hope that the financial picture will work itself out. However, a firm should be measuring growth continually, tracking its performance against its own past history, as well as relevant competitors and other firms, and also using the insights to inform management decisions.

Tying it All Together

From operational improvements that go straight to the bottom line, to strategic insights about the potential value of the business, and more, a firm can realize a range of benefits from collecting and evaluating the right metrics about one's operations on an ongoing basis.

Various approaches to gathering data have pros and cons. Home-grown solutions (i.e., spreadsheets, etc.) may not have a significant upfront cost, but maintaining them can take significant time and money. In addition, such solutions typically fix one problem but leave others in place. Customized, purpose built ERPs are initially more expensive to implement than home-grown spreadsheets, but can also provide far greater visibility to project and employee utilization/realization data for management. They can also deliver much more effective project management and resource planning capabilities, and allow sharing of critical data between front and back office users.

Armed with these insights and various benchmarking reports available from industry leaders like Deltek and others, a firm should compare its data with that of competing firms to gain additional insights about ways to improve and streamline operations. For maximum impact, a firm's management needs to know what metrics are the most important for the insights being sought, and then commit to an ongoing process of information gathering, analysis and action.

Of course, benchmarking is not a silver bullet for growth. It's more of a management philosophy and commitment that emphasizes keeping an eye on the most important KPIs within one's firm and industry, finding meaningful comparisons among top-performing competitors, and adopting proven strategies for improving growth and financial performance.

Getting the Most from Your Business Growth Plan

There is no "right way" to go about evaluating your business growth plan. However, there are some strategies that seem to show up again and again at successful firms. Here are some tips for getting the most out of the effort:

- *Choose the right metrics*
- *Establish yearly and quarterly goals, and measure accordingly*
- *Keep your data fresh and reliable*
- *Get staff beyond your finance area and executives involved and interested*
- *Keep tweaking*

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Full Sail Partners specializes in client-focused technology solutions for architects and engineers, energy and environmental consultants, and professional service firms across the country. Full Sail Partners offers business consulting, technology solutions, and application hosting for Deltek Vision. Partnering with more than 1000 clients nationwide, Full Sail Partners builds long-term relationships and seeks to identify the critical resources to create a faster, more efficient, and cohesive business infrastructure.

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