How Professional Services Firms Use Technology to Drive Financial and Operational Performance

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Service Performance Insight, LLC

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INTRODUCTION

With the professional services (PS) market showing strength once again, it is time for its executives to look inward at their organizations to ensure they have the people, processes and information systems necessary to drive growth and profitability over the next decade.

This Service Performance Insight (SPI Research) executive white paper analyzes some of the challenges facing professional services executives as they move to the next phase of growth, and identifies the strategies necessary to improve organizational performance by connecting disparate business solutions to operate seamlessly.

The analysis in this white paper came from surveys of 220 Professional Services (PS) organizations during the past three months of 2014, and are published in the 2015 Professional Services Maturity™ Benchmark Report. The conclusions from this and past benchmarks strongly indicate that the most competitive PSOs are those that leverage technology to seamlessly connect departments within their organizations.

In the era of the cloud, a path has been created for greater performance. This path means Professional Service Organizations (PSOs) can not only choose the ideal ERP, Client Relationship Management (CRM) and Professional Services Automation (PSA) for each organization – it means they are able to connect these systems easily and create a seamless workflow.

LEARN WHAT PSO LEADERS KNOW

In SPI Research's latest benchmark, 95% of the firms surveyed had an information infrastructure (business applications) that consisted of best-of-breed applications. While each best-of-breed solution, on its own, provided significant visibility and process support to its various departments, most could not achieve the highest level of performance given the lack of integration into the firm's information infrastructure.

PSOs must be in alignment. They must also be flexible in order to change as needed. With information systems as the backbone of the organization, well-chosen systems provide the flexibility to integrate with other supporting applications as well as change as market dynamics dictate. The information infrastructure operates 24/7, and provides the necessary real-time information required to succeed so that PS employees, regardless of their location, have access to critical decision-making information. PS executives must also have access to the solution, regardless of where they are or what intelligent device they chose.

PSO Leaders have learned the secrets of taking advantage of technology to better their bottom line. They know to begin with ERP, since this is the core of all revenue generating organizations. Beyond this *essential* element, PSO leaders focus on financial metrics, demand great visibility, and choose solutions that most easily adjust to unexpected changes.

MAKE FINANCIAL MATURITY A PRIORITY

SPI Research defines financial maturity in terms of the measure of success PS organizations operate in terms of financial performance. The most successful PSO leaders focus heavily on financial metrics.

As Table 1 highlights, the leading firms (top 20% in SPI's benchmark) are focused on attaining financial success. While net profitability might be their ultimate goal, most of the work to be done involves improving organizational processes across all departments within the PSO. This success

involves communication and collaboration across the PSO, with their ultimate goal to provide insight, decision-making and reporting. This improvement begins with their information system foundation, in other words their Enterprise Resource Planning (ERP) or Financial Management solution.

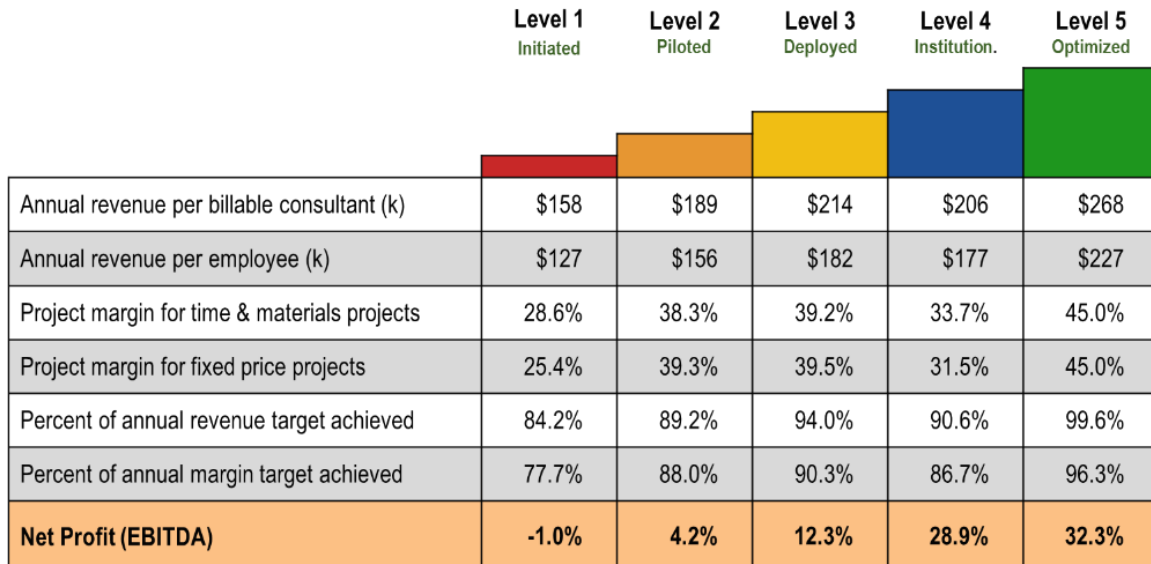**Table 1: Leaders Focused on Financials Outperform all Others**

Key Performance Indicator (KPI)	Top 20%	Others	▲
Annual revenue per billable consultant (k)	$235	$186	27%
Annual revenue per employee (k)	$200	$155	29%
Quarterly revenue target in backlog	59.8%	44.8%	33%
Percent of annual revenue target achieved	96.3%	88.6%	9%
Percent of annual margin target achieved	92.2%	85.4%	8%
Revenue leakage	3.21%	4.31%	26%
Profit (EBITDA)	**29.8%**	**6.7%**	**344%**

Source: Service Performance Insight, March 2015

The analysis in Table 2 came from surveys of 220 Professional Services (PS) organizations during the last three months of 2014, and are published in the 2015 Professional Services Maturity™ Benchmark Report.

The importance of obtaining financial "maturity" in managing a professional services organization is illustrated in (Figure 1). Approximately 30% of the organizations surveyed achieve level 1, versus only 5% that achieve level 5.

Figure 1: Financial Maturity Matters

	Level 1 Initiated	Level 2 Piloted	Level 3 Deployed	Level 4 Institution.	Level 5 Optimized
Annual revenue per billable consultant (k)	$158	$189	$214	$206	$268
Annual revenue per employee (k)	$127	$156	$182	$177	$227
Project margin for time & materials projects	28.6%	38.3%	39.2%	33.7%	45.0%
Project margin for fixed price projects	25.4%	39.3%	39.5%	31.5%	45.0%
Percent of annual revenue target achieved	84.2%	89.2%	94.0%	90.6%	99.6%
Percent of annual margin target achieved	77.7%	88.0%	90.3%	86.7%	96.3%
Net Profit (EBITDA)	**-1.0%**	**4.2%**	**12.3%**	**28.9%**	**32.3%**

Source: Service Performance Insight, March 2015

Start with ERP

Everything begins with the ERP. Professional services organizations have used financial management solutions (ERP) for almost as long as their manufacturing counterparts. ERP is the core of any revenue generating organization, and therefore every organization with more than 20 employees utilizes some type of commercial solution.

Figure 2: Financial Management is the Centerpiece of the PS Information Infrastructure

Increased, real-time visibility is a "must have"

In order to succeed, leading PSO executives, as well as a majority of all other personnel, require visibility into:

- Δ   Territories - Revenue by Territory
- Δ   Practices - Profitability by Practice
- Δ   Clients - Revenue and true profit by client or client type
- Δ   Consultants - Utilization by consultant or consultant type
- Δ   Other areas that are important for better understanding of how they should proceed.

Ideally this visibility is in real-time so decision-making is expedited, and ultimately benefits the organization in terms of managing work and improving both client and employee satisfaction.

Select Solutions that Rapidly Adapt to Change

Leading professional services executives are acutely aware their information infrastructure can make or break performance. Information infrastructure not only manages and monitors all of the critical information within the PS Organization, it also contains embedded business processes, which helped drive greater efficiency and ultimately higher employee and client satisfaction and growth.

Market conditions continue to change in professional services. Externally, increased regulatory and reporting requirements, as well as competition and client demands increase the amount of project and financial information PSOs must capture and report. Internally, with higher marketing and sales costs, employee benefits, and ultimately the costs associated with higher turnover rates, put a strain on the financial infrastructure and profitability of the organization.

The ERP solution must have the capability to easily connect with the wide variety of enterprise solutions! Additionally a flexible ERP solution must allow PSOs to make adjustments easily. For example, change a PSA over time, add a new service or a whole new entity and then report on it.

CONNECT YOUR ERP TO OTHER SYSTEMS

Once PS leaders have selected an ERP solution that enables visibility and flexibility, many connect (integrate) it to systems such as CRM and PSA. As mentioned previously, ERP is at the core of any revenue generating organization. Therefore, to achieve organizational success and not just financial success leading PSOs choose to connect their core ERP to other critical parts of the business (Figure 3).

Figure 3: Integrated Information Enables Greater Financial Visibility

Source: Service Performance Insight, March 2015

Prioritize Cross-Functional Areas

Over the past few years, special attention has been given to the alignment of service sales and delivery organizations. No doubt this area will continue to receive importance as PS executives have found it increasingly difficult to find talented employees, and turnover has increased along the way. While sales and services alignment have always been critical to growing profitable business in PS, it has now come to the forefront in order to grow and prosper.

The "Quote-to-cash" is at the heart of the sales/delivery process. It is a series of interrelated processes supported by CRM, PSA and ERP modules (Figure 4). To optimize these fundamental business processes, executives rely on the connections of these essential business applications to provide visibility, transparency and control. Although each of these applications can run on a stand-alone basis, the true power of managing the complete quote-to-profit business cycle is best accomplished when data flows smoothly across these applications. For example, the customer information, services sold, bid price and other relevant information could be passed from CRM (supplied by one vendor) to the PSA and ERP, each of which are provided by different vendors.

Figure 4: Optimize the "Quote-to-Cash" Process

Connect Finance (ERP) to CRM

Having ERP alone is not enough. Having CRM is not enough either. Most of the firms surveyed in SPI's benchmark utilize a best-of-breed CRM from a vendor that is different from their ERP supplier. And most do not connect it ERP, which means the full benefits of CRM cannot be attained. A best-of-breed CRM solution connected to ERP provides PSO's with greater clarity in terms of the services marketed and sold as well as their potential profits and cash flow (Figure 5). All of this information ultimately drives executive decisions on which services to offer, to what type of organization, and at what price. This combined information provides for greater service growth.

Figure 5: ERP → CRM Connection
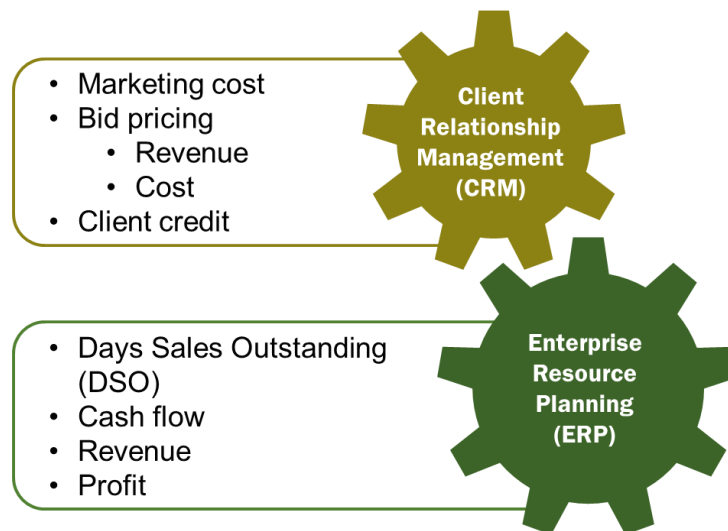
As PSOs move from disconnected best-of-breed CRM, to it being connected to the core ERP solution, they achieve better performance metrics in terms bid-to-win ratio and deal pipeline, to name a few. These benefits provide greater stability and more success in the marketing and sales of services. As the competitive environment intensifies, expanding sales to new clients, winning bids more frequently, and increasing the deal pipeline ultimately leads to faster growth and greater profitability in PSOs.
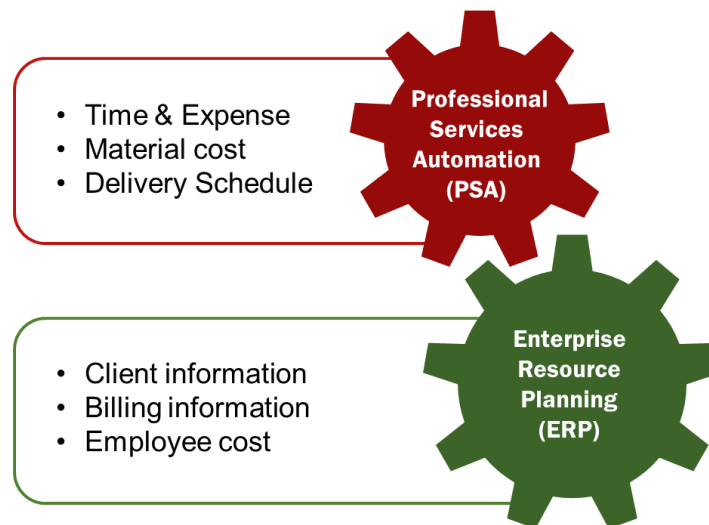
Do you have these symptoms?

Indications that your company may benefit from connecting the ERP solution to CRM takes many forms. Below are some common symptoms:

- Δ The finance team manually triggers invoices when sales are completed in the CRM.
- Δ Errors cropping up due to manual data entry from CRM to ERP.
- Δ Finance team manually collects information from two or more systems to recognize revenue.
- Δ Sales teams lacks key visibility that would prevent them from providing services to clients who are past due on one or more bills.

Connect Finance (ERP) & PSA

Similar to CRM, most professional services organizations utilize best-of-breed PSA solutions. The benefits are clear in terms of increased billable utilization and overall project management success. However, not all of the firms integrate PSA with the core financial management solution. Leaving the ERP separate ultimately reduces the potential benefits of PSA. Connecting the ERP and best-of-breed PSA solutions allows them to collect project related information such as time and expense, as well as billing milestones that can be triggered within PSA or in ERP (Figure 6).

Figure 6: ERP → PSA Connection

- • Time & Expense
- • Material cost
- • Delivery Schedule

Professional Services Automation (PSA)

- • Client information
- • Billing information
- • Employee cost

Enterprise Resource Planning (ERP)

Source: Service Performance Insight, March 2015

Combined ERP and PSA information is critical to minimize days sales outstanding (DSO) and to improve cash flow. This connection of information enables PSOs to increase financial visibility and stability, resulting in improved management of financial information.

SPI Research has found many of the most critical financial metrics (revenue per consultant, employee and PS profit) increase substantially when the best-of-breed solutions are connected.

Do you have these symptoms?

Indications that your company may benefit from a connected ERP and PSA takes many forms. Below are some common symptoms:

- Δ DSO has increased over time.
- Δ You experience cash flow issues in spite of overall growth.
- Δ Project/Job profitability is negatively impacted by revenue leakage.

Δ   Teams spending >40 hours per week in spreadsheets to get essential data and metrics.

THE CLOUD HAS CHANGED EVERYTHING

Perhaps the most disruptive and beneficial change to the technology landscape over the past decade has been the movement to cloud-based solutions. The benefits discussed here and leveraged by PSO leaders have become possible for two reasons:

1. Cloud technology
2. Open architecture to easily connect independent systems in the cloud

Through the cloud, and coupled with new information (smart) devices, professional services executives now have greater access to financial and operational data than ever before. This real-time access enables them to make decisions both more easily and accurately due to the dissemination of the information. The net result is a more efficient and effective professional services organization.

Because information alignment is critical to improving organizational performance, professional services executives must implement technologies that provide seamless workflow across the organization. Keep in mind that just because a solution has been built "in the cloud" does not necessarily mean it easily integrates with other best-of-breed solutions.

Undoubtedly the cloud has offered organizations new options by making integrations with best-of-breed solutions much easier as the architectures of most cloud-based solutions were built with connection specifically in mind.

CONCLUSIONS & RECOMMENDATIONS

Each year, as PS executives begin their annual planning and budgeting process, they must look backward at their accomplishments and look forward as to what they believe lies ahead. Each of the departmental business solutions provides insight into their own successes and failures. Most are purchased independently because they offer best-of-breed functionality for their various departments. The core financial management solution should utilize as much of the information from the best-of-breed solution as possible to enable the organization to make strategic and tactical choices that will positively benefit the PSO going forward.

Will the next twelve months ultimately prove to be a year where PS organizations increase organizational performance, growth and profit? Or is the market merely in the midst of another growth spurt, which ultimately will come back down? Leading PS executives realize in order to stay ahead of the market they must continue to drive performance improvements throughout their organization. And many of these improvements will be fed by the information infrastructure, which ultimately ties in to ERP.

SPI Research recommends professional services organizations continue to view their information infrastructure as a strategic weapon against those organizations not willing to invest in performance improvement. Therefore, it is critical to stay current with the latest technology and capabilities delivered by many of these best-of-breed solution and insure the core financial management solution offers easy integration capabilities to your CRM and PSA of choice. About Service Performance Insight

About Service Performance Insight

R. David Hofferberth, PE, Service Performance Insight founder, managing director and licensed professional engineer has served as an industry analyst, market consultant and product director. He is focused on the services economy, especially productivity and technologies that help organizations perform at their highest capacity.

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Service Performance Insight (SPI Research) is a global research, consulting and training organization dedicated to helping professional service organizations (PSOs) make quantum improvements in productivity and profit. In 2007, SPI developed the PS Maturity Model™ as a strategic planning and management framework. It is now the industry-leading performance improvement tool used by over 10,000 service and project-oriented organizations to chart their course to service excellence.

SPI provides a unique depth of operating experience combined with unsurpassed analytic capability. We not only diagnose areas for improvement but also provide the business value of change. We then work collaboratively with our clients to create new management processes to transform and ignite performance. Visit **www.SPIresearch.com** for more information on Service Performance Insight, LLC.