

Managing Today's Professional Services Organization

How to Improve Efficiency and Increase Profits

As today's global economy mandates higher levels of management and corporate efficiencies, the diverse services industry now requires a single solution that permits administration/management of the industry's fundamental "product": PEOPLE

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Market Background

Morale within professional and embedded service firms is reaching a new high as the consulting marketplace returns to pre-downturn levels. However, this new opportunity won't be for all as it requires a synergistic combination of strong operational management coupled with today's emphasis on greater customer value and business transparency. EnterpriseServiceAutomation.com examines the challenges of cost management and revenue growth within the service sector, and how enterprise service automation (ESA) can successfully streamline and underpin the new agile and profitable service organization.

Market Data

Kennedy Information research focused on the global economic recovery for services expected through 2006 shows a compound annual growth rate of around 5% in a market size of just under \$125bn worldwide, supported mainly by the USA, Western Europe and Japan. Just as in the late 90's, the trend toward outsourcing continues as buoyancy returns to the consulting sector. A return to larger in-house service groups is evident with companies like Accenture adding around 800 new hires during its first quarter ending December 2004. Furthermore, substantial service providers like Keane have boasted of new growth in Financial Services offerings (joining strength in Government and Healthcare sectors).

What is perhaps more relevant is the fact that IT consulting, which has taken a particularly large hit over the past few years, is expected to lead the way in both CAGR and gross revenue growth through 2006. A recent Raintoday.com survey on professional services spending expected within the next two years compared to current levels showed that 53% of businesses expected to increase, 38% expected to stay the same, and only 3% expected to decrease spending on professional services. Software and IT consulting services led the way with 60% of respondents, followed by marketing, advertising and PR at 56%, architecture, engineering and construction at 55%, and finance and accounting at 47%.

In support of this new demand industry analysts put the professional services automation (PSA) and enterprise service automation (ESA) markets at \$810 billion in 2002, with a 30% compound annual growth rate.

Additionally, technology providers who once were able to sell standalone products today are being forced by market evolution to deliver installed and functioning systems on behalf of their clients. As a result, most major software companies now have large and growing professional services divisions. IBM provides perhaps the most obvious example of a product-focused enterprise that has made an effective transfer to a profitable service firm.

Profitable consulting businesses use various tools to facilitate corporate productivity and maintain a view into each project's status and progress. Many companies have built systems piecemeal, for example, a project management system here; a home-built time-reporting application there. These disparate applications are, by definition, not designed to integrate, requiring firms to force-fit applications. The end result is that a company produces multiple reports in different formats; there is no single, unified method available for analyzing overall business performance.

As a service organization grows, its business model becomes more complex. This complexity results from a volume increase in accounting, project management and human capital management. More and more, these increases are compounded by disparate internal systems. Many companies today are growing because of mergers and acquisitions, resulting in a proliferation of inherited systems – both human process and technology. An organization's ability to exert basic control over this environment is severely limited without the right tools for practice management and enterprise administration.

Best Practices Development

Lacking baseline control, a firm fails to attain peak performance, prohibiting it from reaching peak profitability. Ultimately, a successful operational model demands higher-order tools such as resource, opportunity and knowledge management to achieve operational best practices. The reality facing most organizations, from small, specialized firms to the largest, most sophisticated multinational consulting agencies, is the same – each faces significant challenges related to accurately and efficiently capturing time and expense, managing work-in-progress, generating and approving invoices, and reporting on project and client status. Gaining control over these internal business factors rather than trying to control external forces (e.g. when a client remits payment) provides management with a tangible opportunity to improve operational efficiency and increase profits.



Operational Fundamentals

As a firm implements the basic elements of service administration, it becomes increasingly concerned with developing capabilities to manage the higher-order service management aspects of its business. Are the right resources being assigned to the right projects? Are the key employees' career goals being adequately considered in resource assignment? Are pricing and estimating decisions based on the accumulated knowledge of previous projects? Are hiring and recruiting decisions based on accurate and up-to-date capacity plans? Are these plans derived from a realistic view of the sales pipeline?

Best Practices Needs

Best practices manufacturing businesses have come to rely on enterprise resource planning (ERP) solutions coupled with continuous improvement initiatives like Lean and Six Sigma. The services industry, fueled by outsourcing growth and increased competitiveness in the business environment, has matured to the point of requiring a specialized tool that combines best practices in process automation and management for service-specific organizations.



Best Practices Solutions

Industry analysts have termed this new toolset professional services automation or PSA. PSA software solutions typically deliver tools for opportunity management, engagement structuring, and resource and knowledge management. However, today's service-centric organizations are looking for a more mission-critical, end-to-end solution for their needs; a solution that can handle the fundamentals right through project accounting and finance as well as the new market mandates in support of greater business transparency. Enter enterprise service automation, which represents a new class of solution – what EVERY services organization needs to achieve true competitive differentiation.

For a service organization, major and key performance indicators are employee utilization, net realized rates, revenue growth and practice profitability. A firm able to effectively utilize resources and manage its practice starts a chain reaction that ends with revenue growth and differentiation in the market, as both a service provider and employer. Maintaining human capital in a market that has been characterized by a boom-and-bust style over supply to significant shortage of that capital is significant. With ESA tools facilitating the tasks associated with non-billable administrative work, consultants are able to spend more time on projects. More time means shorter project turnarounds, leading to greater customer satisfaction. In the services industry, more than any other, time truly is money and operational efficiency is a competitive differentiator.

RESOURCE MANAGEMENT CHALLENGES	ENGAGEMENT MANAGEMENT CHALLENGES
<ul style="list-style-type: none"> • Finding and sourcing skilled staff 	<ul style="list-style-type: none"> • Decentralized staff
<ul style="list-style-type: none"> • Matching staff skills and career goals and job requirements 	<ul style="list-style-type: none"> • Different currencies and taxes
<ul style="list-style-type: none"> • Providing visibility of roll-offs 	<ul style="list-style-type: none"> • Irregular time and expense reporting
<ul style="list-style-type: none"> • Providing visibility of future staff availability 	<ul style="list-style-type: none"> • Inconsistent administration of rates and costing rules
<ul style="list-style-type: none"> • Balancing confliction project priorities 	<ul style="list-style-type: none"> • Delays in billing approvals
<ul style="list-style-type: none"> • Redeploying resources globally to balance supply and demand 	<ul style="list-style-type: none"> • Information sharing between systems
	<ul style="list-style-type: none"> • Timely updating of project details

With robust administration, a service organization can achieve a level of management it otherwise would not reach. Project budgeting, resource allocation, sales pipeline tracking, capacity planning and consolidated portfolio and performance reporting across the organization are essential to successful management of any professional or embedded services firm.

Spurred by the rise of outsourcing and increased overall business competition, the services industry now requires a specialized tool that combines best practices in process automation and management for service-specific organizations. ESA is more than just project accounting, it covers a wealth of service-related tasks and requirements while touching on many other elements, including:

Opportunity Management

- Contact, Lead and Opportunity Development
- Engagement and Bid Structuring

Resource Management

- Strategic Workforce Planning and Sourcing
- Human Resources

Project Accounting

- Billing and Cash Flow
- Cost and Revenue Recognition

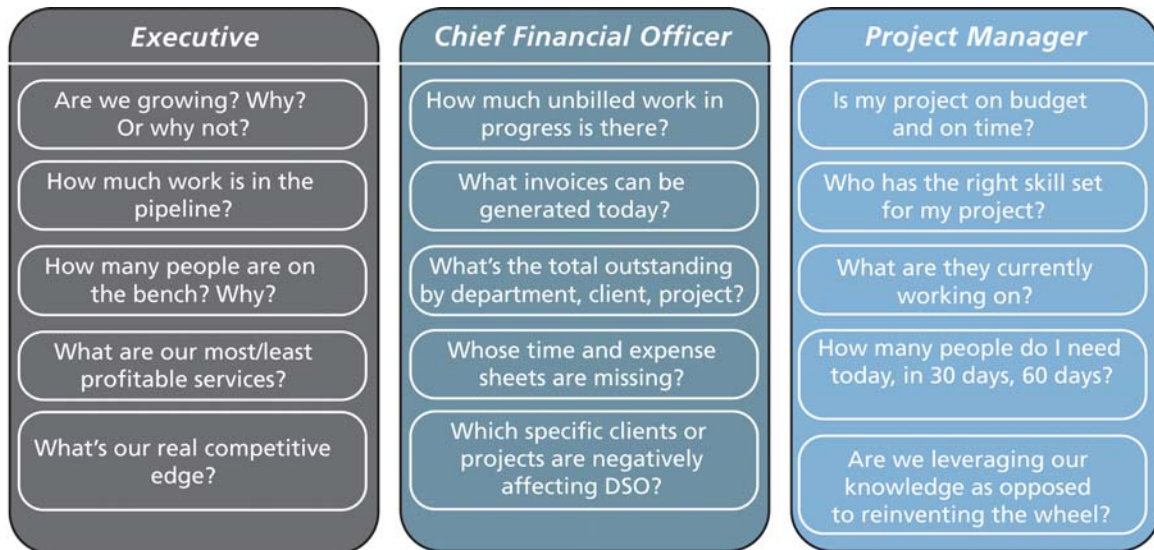
Engagement Management

- Delivery Management
 - Time and Expense, Materials, Approvals
- Project Management
 - Project Planning and Budgeting
 - Practice and Scope Management

Performance Management

- Efficiency and Profitability Analysis
- Project Portfolio Management

ESA is a solution empowering all those across the services lifecycle, allowing them to answer specific questions from distinct viewpoints:



Business Challenges

More than ever, today's service firms must be able to balance comprehensive management of the fundamentals (utilization, etc.) with the demand for greater transparency and value-added delivery, all within a framework of continued cost containment. The need to streamline administrative efficiency, reduce non-billable hours and improve business processes overall is paramount and ongoing. Even an organization that has a well-defined system in place for enterprise invoicing around product sales must still heavily rely on its consulting firm to track and organize consulting billings. Let's look at some of these challenges in more detail:

Opportunity Management

Of key concern and importance is the service firm's relationship with the customer. Specifying new projects with accurate, detailed proposals, while being more efficient all-round, will increase client satisfaction and lead to new, more profitable engagements. Keeping suitable and current resumes on hand, leveraging a knowledge base of past successes, and collaborating on and sharing best practices all help ensure winning proposals. Increasingly, customers are looking for their service partners to share more closely in the mutual successes of their projects, which in turn drive an emphasis on value-based billing arrangements – themselves a key part of a more knowledge-based win-win partnership.

Administrative Efficiency

Every services executive wants to reduce non-billable hours. Streamlining organizational processes helps here, but the largest impact comes when a firm abandons “spreadsheets and paper” in favor of integrated ESA. Incredibly, many service firms today have yet to make that move (including those within the IT sector).

Billing

The most important task of the service firm – its lifeblood – is billing, but the challenges of maintaining accurate, timely and complete billing operations seem to overwhelm most service groups. Erratic and late delivery of incomplete services invoicing is one of the biggest reasons for client dissatisfaction and poor cash-flow from expanding day's sales outstanding (DSO). Maintaining disparate systems is also a major cause of revenue leakage and so bottom-line under-performance.

Strategic Workforce Planning and Sourcing

Bad resource planning based on a “gut feel” or “snapshot of availability” can negatively impact a service firm and its clients. To deal with the challenge of managing capacity with demand, the service sector needs tools that provide longer-term visibility of the workload and skills requirements. Further, they must be able to share that information with recruiters and partner organizations as required through today's emerging sourcing and contingent workforce management solutions. In the halcyon days of the late 90s, contingent workforce capabilities were essential in order to keep up with demand. At the turn of the Millennium they were again critical in finding external resources to supplement a smaller internal core set based on particular project demands. Once again, today they offer a way to maintain stringent cost control over a service firm's highest overhead as well as ensuring the best-equipped resources are applied to engagements. Such tools within ESA solutions provide internal resources with the information they need to pro-actively bid on project work as well as providing resource managers with an efficient means of supplementing internal talent through sub-contract labor.

Staff retention, in light of a return to a more fluid labor market is another significant challenge for today's service enterprise, and so a priority variable in a firm's profitability matrix. As quality of life is perhaps the single greatest factor in staff turnover, improving and maintaining that quality is essential to ensuring employee satisfaction. Assigning staff based on skill development, within a desired geographic area, and preventing overtime from becoming excessive are essential to retaining staff and increasing profitability.

Performance and Portfolio Management

Even those firms with a structured system in place for managing daily operations, such as a PSA solution, may lack access to key operational statistics that will allow them to improve performance and profitability. Only by gaining access to relevant, accurate and consolidated operational information can a service firm begin to look at more efficient client development and, ultimately, new business and growth. Portfolio analysis and what-if modeling are critical in focusing efforts for success.

ESA, Delivering Increased Efficiency Across the Service Value Chain: Today's service businesses operate in a dynamic and competitive environment, often making it difficult for them to look beyond short-term objectives. The Internet has forever changed the speed and shape of business – creating a need for businesses to focus on long-term strategic goals and customer relationships in order to remain competitive and profitable. To do this, companies must mandate best practices within their organization and across their wider value chain. They must invest in solutions that drive efficiency and performance, with business transparency, client satisfaction, organizational accountability and profitability the primary goals. Enterprise Service Automation solutions provide a mission-critical platform for the service sector to support these aims and drive business performance to the next level.