Exact Online

SUCCEEDING IN THE NEW ERA OF PROFESSIONAL SERVICES

How integrated software in the cloud can give you more insight into your KPIs

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INTRODUCTION

The professional services market has altered dramatically since Y2K. In the good old days work seemed to magically appear, generating strong growth in the size and number of professional service providers. Happy times indeed – but how things have changed.

Within the space of a decade, we've moved from a seller's market to a buyer's one. As demand for professional services falls, intensified competition has put downward pressure on fees and margins. And with customers becoming ever more demanding in terms of both quality as well as value for money, it is harder than ever to win new contracts, so providers are experiencing a greater need for differentiation too.

In the context of some of the toughest operating conditions we've seen for a long time, it's more important than ever to respond effectively to the challenges the industry faces as a whole. Challenges such as limited oversight when running multiple projects, which in turn creates problems issuing timely, accurate invoices. Not to mention a range of operational inefficiencies, including billing

errors, which lead to a waste of both revenue and time – and who can afford that?

It's not all doom and gloom, however, and every dark cloud has a silver lining. Opportunities remain for those fast, fit and lean enough to take them – if you know how.

That's where key performance indicators (KPI) come in. KPIs are essential in a dynamic project environment, helping you to understand the performance of your business in relation to your strategic goals and objectives. In other words, they allow you to measure how well your business is performing across a range of metrics. You can then use this knowledge to set clear goals and objectives, as well as benchmark your business against industry peers.

THE KPIS THAT MATTER

Key performance indicators differ from business to business and from sector to sector. Within the professional services industry, 5 key business drivers will provide you with the relevant insight you need to stay in full control of your operations:

- **Project backlog:** full visibility of planned and expected work plotted against available capacity.
- **Billable utilisation:** achieve high levels of billable time per consultant.
- **Days Sales Outstanding (DSO):** quickly converting billable work into cash.
- **Revenue leakage:** preventing revenue leakage due to billing errors or poor time and expense registration processes.
- **Project margins:** identifying profitable and non-profitable projects.

01

PROJECT BACKLOG

The project backlog is the fuel in the tank of your business, the workload you have coming up in either cash or man-hours. It is usually defined by the total value of contracted commitments in the pipeline, but may also encompass planned work or opportunities very likely to come to fruition. In other words, the project backlog is your forecast, showing you how busy you are going to be.

Unlike a physical product, hours that are not sold and billed in any given week are lost forever – a waste of time in the truest sense. Because service providers need to achieve high levels of billable time to stay profitable, it's extremely important to get a handle on the amount of work expected in the near future. Gaining this insight will allow you to maximise billable time – by bringing forward workload in periods of low backlog, for example.

How far ahead do you look to manage your forecast? That obviously depends, but as a general rule of thumb a three-month window will give you a good idea of how efficiently you are selling your time – and making your money.

Healthy forecast, healthy business
It won't surprise you to know that companies with an above average backlog manage their capacity more efficiently and, in doing so, bring in higher revenues. The more work you have in the pipeline, the more selective you can be about the work you take on, ensuring new projects match available skills and capacity.

Conversely, companies with light backlogs experience lower utilisation and rely heavily on discounting – often scrambling to make revenue commitments on time. They are often forced to sell cheap rather than not sell at all, leaving consultants parked 'on the bench' awaiting projects. Yet industry research has shown that more than 60% of service providers have less than half of their quarterly revenue target sitting in the pipeline. When you think that these businesses still have to sell half of all their available hours within the next 3 months, you can imagine the pressure they must be under would make a seasoned football manager tremble.

It's the kind of pressure that can lead to difficult choices in the quest to keep money coming in. Discounting or taking on projects that don't necessarily align with the core business focus are unlikely to contribute significantly to the future long-term health of the enterprise, yet may end up being unavoidable for short-term survival.

How online business software can help to keep you in control of your backlog
In order to efficiently fill your pipeline for the coming period, you need a good insight into planned and expected work together with available capacity. Software integrating CRM and project management tools in the cloud can let you know exactly how your organisation is doing at any point. The vital information you need on time management is always up to date and always ready to view from anywhere, anytime –and in realtime– so you always know how much work is on the way.

Once you have a complete, accurate picture of your commitments and remaining capacity, you have the knowledge you need to make smart decisions about where to invest your time. If you're comfortable with the backlog, you can enjoy the luxury of pursuing only those projects you're absolutely sure will deliver profit.

Alternatively, knowing a long way in advance that you have spare capacity coming up gives you the time you need to make an extra sales push, or bring a project forwards. With more of your consultants busy for more of the time on projects that suit their skills, you'll be well placed to see a significant improvement in turnover.

02

BILLABLE TIME PER CONSULTANT

Professional service companies are in the time business. Hours are their stock in trade, a precious stock that can't be stored in a warehouse or sold at a later date. With that in mind, it's vitally important to have as many consultants as possible working for as much of the time as possible. After all, any hours unused or unbilled remain that way, until somebody invents a time machine.

Not only that, but it is also of the utmost importance to ensure that this time can be billed to the customer. After all, high operational costs mean many service providers need employees to be billable for a high percentage of their time just to break even.

We've already touched on the fact that keeping you and your consultants busy on projects that match their skills provides a solid foundation on which to build a healthy revenue stream. The next step is to ensure that the time you invest actually delivers that revenue for the business. Unfortunately, a whole host of issues can get in the way. Warranty hours, gaps in planning, unsold hours, inaccurate budgeting, unrealistic planning and so on. all mean billable hour utilisation can go down fast, meaning the only thing you'll be counting is the cost.

Don't you love it when a plan comes together?
The secret to maximising billable time is the ability to plan ahead. Better organisation allows your workforce to stay busy on the projects where they can add most value, driving higher annual revenue and greater profitability. Effective planning of your capacity, for example, helps you to place people for the duration of a contract, ensuring the continuity and consistency that put a polish on utilisation rates and project profitability. In contrast, consultants who find

themselves moving between projects to fill gaps here and there will spend more time getting up to speed than on delivering for the client – and for your bottom line.

Thorough planning also helps you to create realistic budgets, drawing up and sticking to timelines that show you know what you're doing. Projects that overrun or overlap (or both) will ring alarm bells with your clients, not to mention your accountant. After all, who's going to foot the bill for those extra hours above and beyond your agreed fees? (Hint: not your client.)

In an ideal world, you'd deliver every project within the contracted timeframe using the right people for the job as efficiently as possible and ensuring the completed hours are all signed off. If that wouldn't impress a client, well, you need a new client.

Clear planning ensures you can give it your best shot, while historical overviews help you to forecast accurately and keep your promises. So all you need to know now, therefore, is… well, what do you actually base your plan on?

DID YOU KNOW?

The industry average for billable consultant utilisation is about 70%. In 2012, an IDC survey among consulting firms found a mean utilisation rate of 69.9%, with 36.8% reporting below this figure and almost 26% unable to provide the metric at all.

Source: Michael Fauscette (2012) Successfully Managing a Consulting Business in Challenging Economic Time, August 2012, IDC

Find of the oversight you need in the cloud
Detailed insight into your current utilisation rates, planned pipeline and available capacity is the starting point to optimising billable hours. And there are no prizes for guessing where you'll find all this clear, comprehensive insight. That's right – in the cloud.

An integrated capacity planning, time registration and invoicing system in the cloud will provide you with instant access to operational data, so you can plan more efficiently and stay aware of who is doing what and when. That's a big help when it comes to taking on the right projects for the time and skills you have available.

It also provides the level of insight you need to manage problems quickly and minimise their impact, whether that's avoiding a project overrun or making sure you or your consultants don't suddenly have to be in 2 places at once.

Once you've allocated the right people to the right projects for the right amount of time, closely monitoring what they do and how they bill for it will help you stay in control of resourcing and improve profitability.

Clear, easy-to-view business information will also make it easy to detect any other challenges to operational efficiency. For example, time regularly spent (or frittered away) on non-billable administrative activities might lead to a change in processes or systems. Inaccurate forecasting and budgeting from departments or individuals can be recognised and improved. Demanding customers or external project co-ordinators can be identified for extra attention. And when clients raise issues with worked hours, you can act quickly and efficiently to minimise the impact on the long-term profitability of a project.

"Utilisation is a key indication of the health of a consulting business and is directly related to effectively managing profits and costs."

03

REVENUE LEAKAGE

How would you respond to being asked to take a pay cut because the company seems to misplace a certain amount of income every month and just can't seem to find it anywhere? Well believe it or not, revenue that has been earned but then lost from the system before it can be turned into hard cash is a real problem – it's the 'silent assassin' of profitability.

It sounds careless at best, but studies have revealed that the industry average for lost revenue stands at a full 5%, mostly due to billing errors, time wasted on product or project delivery issues, incorrect statements of work or misquotes. With margins often tight, the failure to bill the full amount of hours worked is pretty unforgivable and potentially fatal.

Understand what you're up against

Worryingly, many organisations don't even realise that they're suffering from the problem. Yet revenue leakage provides a very useful barometer for overall operational efficiency: service providers with higher levels of revenue leakage report lower rates of utilisation, EBITDA and on-time project delivery than those who focus on contract management, billing and accurately logging hours and expenses. Put another way, the companies that leak the most revenue are the most inefficient performers. Quelle surprise...

With information scattered across various aspects of the business such as project proposals, HR (sickness, holiday, leave, scheduling) and timesheets, creating an accurate picture of the working week can be a real challenge. The most common approach to keeping on top of things to manage revenue leakage is to log hours into the system as soon as possible. We continually see that firms entering work hours at the end of the month suffer more revenue leakage than those who do so on a daily or weekly basis. The reason is often simple enough: the more time that goes by, the more likely employees are to report

work activities inaccurately – one simple example being the misallocation of billable hours as non-billable.

At the same time, this shows the problem isn't as straightforward as simply identifying worked hours that haven't been invoiced. The hours are there on your system all right – but they're in disguise as something else – so how will you ever know?

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DID YOU KNOW?

Firms reporting work hours at the end of the month suffer more revenue leakage than firms reporting work hours on a daily or weekly basis. The reason is often simple enough: with the longer time lapse, employees fail to recall work activities correctly.

Many of the answers are in the cloud

We've just mentioned that moving consultants to a more frequent time reporting system is a big step in the right direction, ensuring they make fewer mistakes. But as you might well imagine, the majority won't exactly be chomping at the bit to make the change, with time sheets generally being fairly low down on the 'list of things I like doing at work.'

But with the right technology, you can make time registration quick, easy and accessible, whether that's for a small, tight-knit group or a large enterprise. Enter the cloud. Time and billing software in the cloud will literally save your time, allowing you and your teams to enter hours and costs directly into your central system from virtually anywhere, on any PC, laptop, tablet or smartphone. That means no more lost, late or illegible timesheets, while hours can be logged more frequently, more accurately and more quickly.

And while a decent software system will let you and your consultants enter your time directly into the cloud and onto the system, what it doesn't do is let you forget to do it. Project management tools can include automatic messages that offer a gentle reminder to anyone who 'may not have got round to it yet'.

And once the hours are logged, seal the cracks

As you may have found out for yourself, transferring data from one system to another provides ample opportunity for information to go missing. When you think about the work it takes to manually enter a complex spread sheet into an invoicing platform, you can easily understand why. But there is a highly effective alternative to drooping eyelids or a magnifying glass.

Working in the cloud will also let you integrate time registration and approval with your invoicing process, automatically generating invoices to reduce the chance of your hard earned money leaking away. The right software can even help you to build accountability checks into your entry system (such as ensuring timesheets are fully complete) that provide additional safeguards to prevent mistakes being made and hours going astray.

04

DAYS SALES OUTSTANDING
AKA SHOW ME THE MONEY!

Days Sales Outstanding (DSO) is a measure of the average number of days it takes you to collect revenue once you've sent out an invoice. It shows how effective your company is managing cash flow – ensuring the money you need to run your business is safely in your bank account where it belongs (although probably not for long). The faster you transform sales into cash, the sooner you can meet necessary expenditures and put the money to use again.

This KPI is a useful indicator of operational efficiency and general business health. For example, companies with higher DSO will often suffer from unidentified internal bottlenecks and stumbling blocks, while low DSO usually indicates the admin side of things is in pretty good shape.

At the same time, a low DSO will ideally be complemented by a smooth, even cash flow. Different clients offering different payment terms can create peaks and troughs in your income, so it's doubly important to ensure invoices are paid on time to keep your cash flowing as evenly as possible.

As you may well expect, DSO all boils down to collecting revenue as quickly and efficiently as possible, ideally without the need for a couple of large, unseemly looking gentlemen who rarely seem to smile.

The cloud can help you receive payment on your own terms
Professional services companies often face a major challenge in creating accurate, timely invoices from multiple timesheets - for planning, timesheet reporting, invoice proposals etc. It's not always easy to keep track, which mean things can very easily go wrong every now and then. As we know all too well, mistakes cost precious time and in professional services, time is money.

Business software in the cloud can connect every part of your business into a single, seamless whole. We've already seen how it makes it easy to enter hours accurately and frequently, while integrated invoicing means you can send out your bills – and receive payment for them – more quickly.

If that isn't enough, the cloud also delivers the insight you need to stay on top of who owes you what and when payment is due, allowing you to quickly identify outstanding payments and chase them up in good time.

DID YOU KNOW?

The industry average for DSO is over 40 days. The majority of the firms keep their DSO between 30 – 50 days.

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PROJECT MARGINS

You undoubtedly already know that project margin is defined as the percentage of revenue left over once you've paid the direct costs of any given project. But would you know what the actual profitability of that project is?

According to a study performed by Heliview[1] in the Netherlands, nearly 30% of the firms surveyed were unable to track project profitability.

Project margins are obviously the key factor in overall profitability. The lower the project margin, the less profit is available to pay for overheads, business development, sales and marketing, not to mention the Christmas Party. So in an industry where margins are under attack from a more competitive environment, falling demand and greater expectation, the ability to monitor them closely is critically important.

And with professional service providers under increasing pressure to deliver more value for money, more flexible pricing and billing arrangements – including fixed-price contracts – are fast becoming the norm. Low profit margins put enough pressure on your business as it is, but fixed-price projects at competitive rates offer even less room to manoeuvre. When even the most minor scope changes can easily make projects unprofitable, you have even more reason (if any were needed) to control project margins as tightly as possible.

In a world where work moves fast and projects change frequently, this may become key to survival.

How to maximise your margins
Integrated project management tools streamlines your entire operation, seamlessly integrating your time and cost information with the rest of your accounting data, including your general ledger, payables and receivables.

Comprehensive oversight of your operations lets you identify the most profitable projects at a glance. You'll be able to plan better to maximise capacity. And frequent, mobile time sheet entry ensures you bill for all your time, not just the hours people can remember.

Realtime analytics and audit trails provide insights that let you detect problems faster and act on them more effectively. Collaboration also improves, because consultants can access and upload information into a central system in realtime – whether they're on the other side of town or the other side of the world.

Think of the cloud as an online personal trainer for your business, cutting back the waste, streamlining your operations – and getting your profit margins into shape.

DID YOU KNOW?

Project margins vary per sector but generally range from 30 to 40%[2]

[1] Source: Heliview industry report professional services 2012
[2] Source: The 2011 Professional Services Maturity Benchmark, February 2011, Service Performance Insight

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THE BOTTOM LINE

"Think of the cloud as an online personal trainer for your business, cutting back the waste, streamlining your operations – and getting your profit margins into shape."

Today's professional services companies face a range of challenges, from lower margins to higher expectations. An understanding of your KPIs gives you the deep knowledge of your business you need to embrace the challenges and even thrive on them. In turn, an integrated planning and CRM system in the cloud will provide you with this understanding quickly and easily whenever you need it.

Online business software seamlessly connects the various strands of your operation, not only streamlining and synchronising your processes but also equipping you with an unprecedented level of insight that's second only to a crystal ball.

The vital information you need on important issues such as project progress, budget overruns, outstanding items, time management and invoicing, are all ready to view from anywhere, anytime, in realtime. And because it's all kept in the cloud, you always know what's going on, what's going right, and what's going wrong.

Keeping track of your project backlog allows you to make better decisions in allocating personnel and maximising capacity. You can plan with confidence, taking on the right projects for their people to deliver success and build market position. Seamlessly integrating time and billing software with your CRM and accounting will contribute to accurate invoicing to reduce revenue leakage, while sending them out quickly will help to reduce your DSO.

And when it comes to profit margins, well you can see where we're going with this, can't you? Integrated business software in the cloud gives you the capability to plan more effectively. Work more efficiently. Invoice more accurately. Get paid more quickly.

It all adds up to more profit.

And really, that's the bottom line. •

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= exact   FOCUS ON WHAT'S NEXT