



A Service Performance Insight White Paper

Service Compass:

Charting the Course to Professional Service Excellence



Top 5 Strategies to Grow Your Project-Based Business

Information Visibility is Key to Success

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Service Performance Insight, LLC

www.SPIresearch.com

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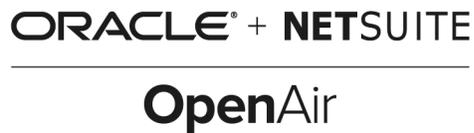
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How to effectively grow your project-based business

"If you can't measure it, you can't improve it."

— *Peter Drucker*

The professional services industry is one of the fastest growing segments of the global economy, as increasing numbers of companies outsource and out-task non-core business processes to specialized experts. Professional services organizations (PSOs) both within companies and independent firms account for annual global revenues in excess of \$4 trillion. The IT services market alone produces more than \$943 billion of that total.

Yet despite these vast market opportunities, PSOs face serious challenges to their survival and growth. Every sector of the professional services industry is experiencing consolidation and rate pressure as a new breed of nimble, global competitors seize opportunities in industry, market and technology shifts.

Growth has its challenges

As a service organization's growth accelerates, all facets of the business become more complex. Acquiring new clients involves the inherent risk of greater project complexity, unforeseen technical problems and unexpected contract and billing issues. Growth entails the ability to quickly find, recruit and ramp top talent while maintaining the unique expertise and culture which made the firm great in the first place. Complexity is compounded by the addition of new business models, and ever-changing accounting and revenue recognition policies. More clients, more projects, and more employees all add up to more headaches and more administration. An organization's ability to exert basic control over this ever-changing environment is severely limited without the right solutions for project management, resource management, finance and operations.

In today's always on, competitive consulting marketplace challenges abound:

- **Globalization:** In professional services, new entrants are taking advantage of lower-priced resources and specialized skills to win clients. Globalization has led to rate pressure and labor arbitrage to locate the best resources at the lowest price. Top performers are increasingly using virtual, multilingual workforces to seize market opportunities.
- **Sales and marketing:** a perennial challenge for all businesses is accentuated by the specialized business acumen required to be an effective solution seller.
- **Talent:** PSOs must compete for top consultants in a global, web-leveled playing field with a shortage of top technical talent. They also have to manage, grow, retain and motivate a multigenerational, multilingual, multicultural workforce.
- **Industry consolidation:** Mergers and acquisitions abound across the services industry as legacy incumbents use acquisitions for market expansion and as a means to gain valuable new skill sets.
- **Specialization:** To differentiate themselves and compete, service organizations of all sizes must narrow their focus to specific industries, technologies, and core competencies.

This whitepaper draws from [Service Performance Insight's 2017 PS Maturity™](#) benchmark. Based on input from 416 professional service organization from around the world, we provide insights into the top five strategies for effective growth and their impact. Real-time information visibility based on integrated business applications clearly underpins and reinforces these top five strategies.

5 Key Strategies to Build Your Project-Based Business

Successfully meeting today's business challenges requires efficient business processes. PSOs need solutions to manage the entire project and service delivery lifecycle—from the first customer contact to final payment collection. Manual processes and fragmented systems with individual components that are not synchronized cause unreliable reporting, errors in billing, excessive manual data reentry, and loads of delays and inaccuracies. The negative impact this has on clients and employees can dampen growth and derail success. Proven project-based business growth strategies are:

Strategy 1: Get everyone on the same page – break down the silos

Getting everyone on the same page to achieve business goals is a key ingredient of success. This means establishing strong, mutually supportive relationships and seamless handoffs across sales, service delivery and finance. Think of each function as a critical piece of the growth puzzle. The fundamental building block of alignment is real-time information visibility in combination with aligned, mutually supportive, goals and measurements. Who are your best clients? Which projects and solutions are the most successful? Which sales teams are the most effective and why? What resources have the right skills and availability for upcoming projects? How should we best manage complex project types with a variety of different billing models? Each team needs access to the same information to make informed decisions. Breaking down the traditional silos and instilling real-time visibility across the business is a hallmark of best-in-class services organizations.

Alignment or lack of alignment has a significant impact on bottom-line performance. Lack of alignment emanates from a lack of clarity and conflicting or too many priorities. It is characterized by low levels of employee engagement and functional silos or factions. The highest performing service organizations exhibit clarity of purpose and alignment around a succinct set of core values and initiatives. Effective measurements and compensation reinforce those values, linking strategy to execution. As shown in Table 1 aligned goals and measurements have a profound impact on performance. Revenue growth, employee attrition, billable utilization and net profit all improve with better alignment and increased visibility.

Table 1: The Impact of Aligned Goals and Measurements

Goal and measurements in alignment	Survey %	Rev. Growth	Emp. Attrition	Billable Util.	EBITDA
1 – Not aligned	3.4%	8.3%	16.2%	63.5%	10.0%
2	8.9%	8.4%	12.5%	67.5%	12.9%
3	23.3%	7.7%	13.0%	70.6%	16.2%
4	45.7%	9.2%	13.8%	69.9%	15.4%
5 – Very aligned	18.7%	12.0%	11.5%	72.1%	19.7%
Total/Average	100.0%	9.3%	13.2%	70.0%	16.0%

Source: Service Performance Insight, September 2017

Strategy 2: Specialize by focusing on the right clients

Selling professional services is far more complex than selling products. Service engagements are intangible, which means service organizations must establish a brand and reputation based on their unique expertise, intellectual property, and superlative client results. Many firms start by selling services to any client that pays the bill. This approach may help build revenue rapidly, but for long-term growth, PSOs must develop a client profile that matches core capabilities.

Specialization is increasingly important. PSOs who focus on a narrow industry, market or particular business problems become recognized experts in their field. With repetition, expertise and in-depth knowledge become finely honed and tuned, resulting in greater client success with better value realization.

Specialization amplifies uniqueness and accentuates competitive differentiation, leading to even more success.

Service sales effectiveness is a subjective question but typically refers to the percentage of sales people who achieve quota and the probability that the sales organization will achieve its targets. SPI Research asked respondents to rank the effectiveness of the service sales organization on a scale from 1 to 5 with 5 representing perfection (Table 2). Sales effectiveness has a profound impact on all aspects of PS including revenue growth, win percentage, size of the sales pipeline, revenue per consultant, achievement of annual revenue targets and net profit. Unfortunately, almost 15% of respondents gave sales effectiveness a failing grade of 1 or 2; 31% give sales effectiveness an “OK” score of 3; only 55% gave sales effectiveness high marks.

Table 2: The Impact of Service Sales Effectiveness

Sales Effectiveness	Survey	Annual Revenue Growth	Bid-Win Ratio	Size of Sales Pipeline	Revenue (\$) per consultant	Revenue (k) per employee	% of annual target revenue	EBITDA
1 - Low	3.8%	-2.7%	3.68	195%	\$171	\$171	83.1%	NA
2	10.0%	5.8%	4.02	157%	194	\$167	90.0%	14.4%
3	31.1%	9.4%	4.52	178%	186	\$144	90.7%	15.3%
4	46.4%	9.9%	4.78	193%	210	\$161	92.2%	15.4%
5 - High	8.7%	14.0%	5.92	206%	220	\$193	95.7%	16.1%
Total/Avg.	100.0%	9.2%	4.68	186%	\$200	\$159	91.5%	15.6%

Source: Service Performance Insight, September 2017

Strategy 3: Hire and keep the right people

As a people-based business, a PSO’s success depends on attracting, hiring, retaining, and motivating a highly skilled workforce. Effective talent strategies are based on alignment between the resource plan and the recruiting plan, ensuring the right people with the right skills are available when needed. Top firms are constantly on the lookout for superlative consultants and are able to design new solutions around strategic hires. At the same time, effective on-boarding programs ensure new hires are rapidly assimilated and well-prepared for project assignments.

In today’s competitive talent market, top performing organizations focus intently on creating collaborative, knowledge-driven cultures. They support virtual workstyles by ensuring all systems are mobile-friendly and accessible so employees can work effectively from anywhere.

Table 3 shows the powerful correlation between voluntary attrition, revenue growth and profit. The table demonstrates the negative consequences of high voluntary attrition. As attrition rises, most other aspects of performance suffer. The probability of on-time project delivery decreases while average project overruns increase.

Table 3: The Impact of Voluntary Employee Attrition

Annual Employee Attrition	Survey Percent	% of employees billable	On-time projects	Annual Rev. Growth	EBITDA
None	14.5%	76.3%	84.9%	10.0%	19.1%
1% - 5%	29.3%	73.5%	76.2%	9.5%	17.5%
5% - 10%	25.5%	75.1%	78.0%	9.7%	12.6%
10% - 15%	17.8%	77.4%	79.0%	8.3%	11.4%
15% - 25%	8.5%	73.7%	73.7%	9.0%	9.4%
Over 25%	4.4%	79.4%	77.9%	0.2%	3.6%
Total/Avg.	100.0%	75.3%	78.3%	9.0%	14.1%

Source: Service Performance Insight, September 2017

Remaining employees are challenged to pick up the pieces from exiting workers and quickly come up to speed to reestablish client relationships. Clients are forced to back-track to reiterate previous decisions and vendor commitments.

Strategy 4: Deliver with excellence

Nothing will derail your growth plans faster than poor service execution. Clients and consultants alike abhor spending too much time on mundane activities like reporting time and expense or dealing with endless texts, emails and phone calls to find the right resources. Successful organizations have consistent real-time access to planned versus actuals costs and schedules, project burn rates, current and projected project profitability, as well as consistent service delivery tools and templates. If you haven't taken the time to lay a strong foundation in the basics of project management, your dreams of achieving an effective global services organization are unlikely to come true.

As the organization grows, the strain on resource management increases. Whether a PSO uses a centralized or decentralized resource management strategy, its executives need visibility into all resources at both a high level (clients, project type, geography) and low level (individual skills, loaded cost, growth objectives, etc.). To be more effective and efficient, PSOs must deploy the right resources, at the right time, on the right type of projects:

- Structure engagements with clear contracts, statements of work, and project plans.
- Develop resource management tools that provide visibility to current and upcoming projects.
- Standardize methods and tools to ensure quality and consistency.
- Instill effective and proactive project quality governance including a communication plan.
- Use subcontractors and partners with the right skills to complete the work if the project scope changes. Train where necessary for proper certification of subcontractors.
- Capture all client billable time and invoice for it on a timely basis in accordance with contracts.

Survey respondents were asked to rate the effectiveness of their resource management processes with 1 = poor and 5 = great. Although subjective, this key performance indicator is an important measurement of how effective the organization views its resource management processes. Resource management is critical to project planning and execution. PSOs who effectively and efficiently manage resource scheduling show much higher utilization rates, more projects delivered on-time and higher project margins and company profitability.

Table 4: The Impact of Resource Management Effectiveness

Resource Management Effectiveness	Survey Percent	Use a Std. Delivery Method.	Billable Utilization	On-time Completion	Project Margin
1 - Low	2.2%	66.0%	72.0%	51.0%	31.3%
2	10.2%	69.3%	69.5%	70.2%	35.1%
3	26.9%	68.6%	69.2%	74.5%	34.8%
4	47.3%	69.2%	70.9%	79.8%	33.5%
5 - High	13.5%	78.1%	68.8%	83.9%	33.4%
Total/Average	100.0%	70.2%	70.0%	77.3%	34.0%

Source: Service Performance Insight, September 2017

Strategy 5: Gain Visibility Across the Organization

To increase revenue and profitability while satisfying customers, PSOs need effective information management throughout the entire client lifecycle. Visibility allows PSOs to effectively plan, schedule, and execute services to meet client expectations and project milestones.

Many PSOs try to run the business with scores of complex spreadsheets and error-prone manual processes. As soon as the firm's roster of consultants exceeds 10, running the firm by spreadsheet is no longer a viable option. Managing by spreadsheet can lead to inefficiencies in scheduling and project execution, late delivery, and higher costs. Ultimately, these issues lower client satisfaction, which hurts the organization long term.

Spreadsheets simply do not provide:

- **Real-time visibility:** Size of the sales and recruiting pipelines; projects in backlog; potential shortages of required skills, languages, or competencies; ability to spot and reduce risk.
- **Trend analysis:** Changes in bill rates; project size and duration; types of new clients and projects; profitability of projects, clients, and practices; billable utilization by region or practice.
- **Real-time accounting:** Efficient tracking of ongoing expenses and hours of work to view budget to actual performance while keeping costs and revenue in balance.

SPI Research recommends several steps to improve visibility and cash flow:

- **Capture time and expenses accurately:** Mandate weekly time sheets and expense reports. Support mobile access to tools that allow consultants to submit easily while on the go.
- **Invoice according to contract terms:** Invoices must conform to client requirements and contract terms. Supporting documentation helps the invoice-approval process run smoothly.
- **Manage multicurrency, multilingual activities:** Global operations involve multiple currencies, accounting rules, time zones, and languages. Best-in-class organizations use one globally integrated system with separate views for individual practices and regions.
- **Conform to local billing rules, taxes, and regulations:** Each country and region has its own specific accounting rules and regulations. PSOs operating in multiple geographic regions must use an enterprise resource planning (ERP) system with all the information necessary to comply with local regulations.
- **Enable global financial roll-up:** All financial information must eventually conform to the organization's global currency. Daily variances in exchange rates add to the complexity. PSOs operating in multiple regions cannot do this without an integrated financial solution.

Real-time information visibility is one of the most important management tools. SPI Research asked survey respondents whether their executives had real-time visibility into all business activities (sales, service, marketing, finance, etc.). As shown in Table 5, the rewards are significant for organizations who have integrated systems and management reporting and dashboards that allow them to pinpoint issues and spot trends in real-time. Executives who have real-time visibility run companies that are much more profitable than those that are not as they are able to take advantage of changing market conditions.

Extended real-time visibility is only attained through application integration. "Extended" means information that flows across departments and functions, so that employees have a more complete picture of operations, and can make quick, fact-based decisions. Without real-time visibility, decision-making can be subjective and reactive which hurts business performance. Table 5 clearly demonstrates

the positive financial impact of real-time visibility with significantly higher revenue growth, win percentages, revenue per consultant and employee resulting in improved net profit. These results justify IT expenditures to provide the integrated systems and tools required to visualize, monitor and control the business.

Table 5: The Impact of Real-Time Visibility

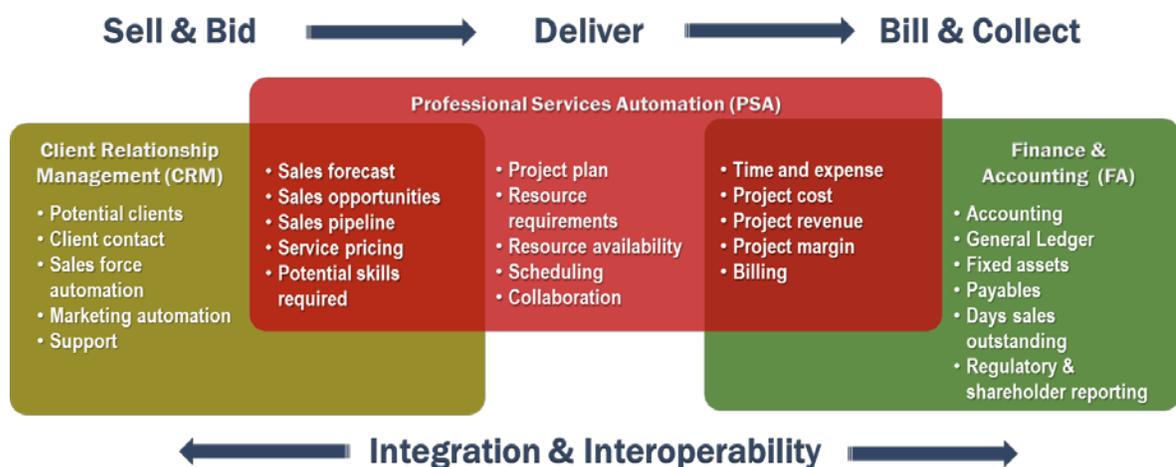
Real-Time Visibility	Survey Percent	Revenue Growth	Bid-to-Win ratio	Revenue / Billable Employee (k)	Revenue / Employee (k)	EBITDA
1 - None	3.6%	2.5%	3.83	\$168	\$123	15.3%
2 - Minimal	12.5%	8.7%	4.79	174	146	19.9%
3 - Some	31.0%	7.3%	4.74	208	156	13.1%
4 - Substantial	34.9%	9.1%	4.94	219	178	13.6%
5 - Comprehensive	17.9%	12.3%	5.10	206	168	14.6%
Total/Average	100.0%	8.8%	4.85	\$205	\$164	14.5%

Source: Service Performance Insight, September 2017

Integrated Business Applications Drive Success

Accurate information helps leaders price engagements that meet cost, margin and time requirements, which in-turn improve client satisfaction because expectations are properly set and deliverables and timelines are met. Recruiting and human resources can access this information to ensure the organization has the correct mix of personnel to meet current and future requirements.

Figure 1: Integrated Solutions Drive Performance



Source: Service Performance Insight, September 2017

The obvious way to gain greater visibility is to take advantage of an integrated information infrastructure. As shown in Figure 1 PSOs can operate more efficiently and effectively – *and of course*

more profitably – when their information systems are integrated so each area of the PSO understands how their work impacts others.

The core application used to manage service projects, tasks and resources is Professional Services Automation. Integration between PSA and ERP is required to support a project-driven business as revenues (reflected in the PSA) must be aligned with costs (reflected in the ERP). PSA by itself helps drive significant performance improvements in resource management and time and expense capture. However, when PSA is integrated with other enterprise applications all levels of the organization gain broader visibility into overall business operations (Table 6). This visibility is critical to make the changes necessary to improve performance and client satisfaction, which ultimately drive profit improvements.

Affordable and easy-to-use cloud-based systems are now available, offering visual project management with time recording, billing, resource management, client management, and financials. They allow employees to access the system from anywhere with an Internet connection, thereby enabling PSOs to manage remote employees and projects as the firm expands.

The integration of PSA with other enterprise applications, especially core financials (ERP) and Client Relationship Management (CRM) provide executives in other key functions the information necessary to better plan, staff, train, and compensate employees.

Table 6: The Benefits of PSA Integration

Key Performance Indicator	No PSA	Standalone PSA	Integrated PSA
Year-over-year change in PS revenue	7.8%	8.6%	9.8%
% of billable employees	72.2%	74.4%	75.2%
Projects delivered on-time	77.5%	78.7%	79.8%
Project margin	35.0%	36.3%	36.9%
Average revenue per project (k)	\$112	\$146	\$199
Annual revenue per billable consultant (k)	\$204	\$205	\$206
Executive real-time wide visibility (1 to 5 scale)	3.19	3.56	3.74
Profit (EBITDA)	10.0%	11.0%	14.3%

Source: Service Performance Insight, September 2017

Putting It All Together

The professional services market is recession-proof. When times are good, professional service organizations help their client companies expand through innovation, new products and strategies and mergers and acquisitions. When times are not so good, PSOs help their clients streamline operations, reduce cost, and eliminate unnecessary or redundant processes.

Despite the need for its services, a professional services organization will not automatically be successful. Best-in-class PSOs succeed by having a clear vision of their service offering, hiring and retaining the best talent, focusing on the right clients, and delivering consistently high-quality work.

Leaders of successful PSOs know that information is critical to their survival and success. Greater access to accurate and timely information helps employees at all levels of the organization to better conduct business, whether they are selling and delivering services, managing practices or geographic regions, or running the entire company. Information visibility drives success but it can only be attained through integrated business applications.

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.SPResearch.com for more information on Service Performance Insight, LLC.